

FINAL OFFICIAL STATEMENT AND NOTICE OF SALE DATED NOVEMBER 10, 2004

Rating: See "Rating" herein.

Moody's Investors Service: Aaa

Ambac Insured

New Issue

In the opinion of Palmer & Dodge LLP, Bond Counsel, based upon an analysis of existing law and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under the Internal Revenue Code of 1986. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. ***The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended (the "Code"). Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.*** (See "The Bonds - Tax Exemption" herein and Appendix B attached hereto.)

TOWN OF SHREWSBURY, MASSACHUSETTS

\$8,650,000 GENERAL OBLIGATION BONDS

DATED

November 15, 2004

DUE

November 15

(as shown below)

The Bonds are issuable only as fully registered Bonds without coupons and, when issued, will be registered in the name of Cede & Co., as Bondholder and nominee for The Depository Trust Company ("DTC"), New York, New York. DTC will act as securities depository for the Bonds. Purchases of the Bonds will be made in book-entry form in denominations of \$5,000 or any integral multiple thereof (see "Book Entry System" herein).

Principal of the Bonds will be paid on November 15 of the years in which the Bonds mature. Interest on the Bonds will be payable semiannually on November 15 and May 15, commencing November 15, 2005, until the principal amount is paid. Principal and semiannual interest on the Bonds will be paid by U. S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

The Bonds are subject to redemption prior to their stated maturity dates as described herein.

An opinion of Bond Counsel will be delivered with the Bonds to the effect that the Bonds are valid general obligations of the Town of Shrewsbury, Massachusetts, and that the principal of and interest on the Bonds are payable from taxes that may be levied upon all the property within the territorial limits of the Town and taxable by it subject to the limit imposed by Chapter 59, Section 21C of the General Laws, **except for that portion of the principal (\$7,400,000) and the interest thereon that is exempt from the limit.**

Payment of the principal of and interest on the Bonds when due will be insured by a financial guaranty insurance policy to be issued by Ambac Assurance Corporation simultaneously with the delivery of the Bonds.

Ambac

MATURITIES, AMOUNTS, RATES, YIELDS AND CUSIPS

Due November 15	Principal Amount	Interest Rate	Yield	Cusip 825502	Due November 15	Principal Amount	Interest Rate	Yield	Cusip 825502
2005	\$ 455,000	3.875 %	1.90 %	RW9	2015	\$ 450,000	4.00 %	3.78 %	SG3
2006	455,000	3.00	2.05	RX7	2016	450,000	4.00	3.88	SH1
2007	455,000	2.875	2.18	RY5	2017	450,000	4.00	3.97	SJ7
2008	455,000	2.875	2.45	RZ2	2018	450,000	4.00	4.06	SK4
2009	455,000	3.125	2.76	SA6	2019	450,000	4.125	4.15	SL2
2010	455,000	3.25	3.00	SB4	2020	370,000	4.25	4.25	SM0
2011	455,000	3.50	3.22	SC2	2021	370,000	4.30	4.34	SN8
2012	455,000	3.625	3.39	SD0	2022	370,000	4.375	4.42	SP3
2013	455,000	3.75	3.55	SE8	2023	370,000	4.50	4.50	SQ1
2014	455,000	3.875	3.66	SF5	2024	370,000	4.50	4.58	SR9

(accrued interest, if any, to be added.)

The Bonds are offered subject to the final approving opinion of Palmer & Dodge LLP, Bond Counsel, as aforesaid, and to certain other conditions referred to herein. First Southwest Company has acted as Financial Advisor to the Town of Shrewsbury, Massachusetts, with respect to the Bonds. The Bonds in definitive form will be delivered to DTC on or about November 19, 2004 against payment to the Town in federal reserve funds.

FIRST SOUTHWEST COMPANY

IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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The information set forth herein has been obtained from the Town and from other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness. Any statements made in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended merely as opinion and not as representations of fact. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale of the Bonds described herein shall, under any circumstances, create any implication that there has been no change in the affairs of the Town of Shrewsbury, or its agencies and authorities, since the date hereof.

SUMMARY STATEMENT

The information set forth below is qualified in its entirety by the information and financial statements appearing elsewhere in the Official Statement.

Date of and Time of Sale:	Wednesday, November 10, 2004 at 11:00 A.M. (Eastern Time).
Location of Sale:	54 Canal Street, Boston, Massachusetts.
Issuer:	Town of Shrewsbury, Massachusetts.
Issue:	\$8,650,000 General Obligation Municipal Purpose Loan of 2004 Bonds - Book-Entry - See "Book-Entry-Only System" herein.
Preliminary Official Statement Dated:	November 1, 2004.
Dated Date of Bonds:	November 15, 2004.
Principal Due:	Serially on November 15, 2005 through November 15, 2024, as set forth herein.
Redemption:	The Bonds are subject to redemption prior to their stated maturity dates as described herein.
Security:	The Bonds are valid general obligations of the Town of Shrewsbury, Massachusetts, and will be payable as to both principal and interest from taxes that may be levied upon all the property within the territorial limits of the Town and taxable by it subject to the limit imposed by Chapter 59, Section 21C of the General Laws, except for that portion of the principal (\$7,400,000) and the interest thereon that is exempt from the limit.
Credit Rating:	Moody's Investors Service has assigned a rating of (Aa3 underlying) Aaa to the Bonds on the basis of the Ambac insurance on the Bonds.
Bond Insurance:	A policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Ambac.
Basis of Award:	Lowest true interest cost (TIC) as of the dated date.
Tax Exemption:	Refer to "THE BONDS - Tax Exemption" herein and Appendix B, "Proposed Form of Legal Opinion."
Continuing Disclosure:	Refer to "THE BONDS - Continuing Disclosure" herein and Appendix C, "Proposed Form of Continuing Disclosure Certificate."
Bank Qualification:	The Bonds will not be designated by the Town as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended.
Paying Agent:	U. S. Bank National Association, Boston, Massachusetts.
Bond Counsel:	Palmer & Dodge LLP, Boston, Massachusetts.
Financial Advisor:	First Southwest Company, Boston, Massachusetts.
Delivery and Payment:	The Bonds in definitive form will be delivered to DTC on or about November 19, 2004 against payment to the Town in Federal Reserve Funds.
Additional Information:	Questions concerning the Official Statement should be addressed to: Carolyn J. Marcotte, Treasurer/Collector, Town of Shrewsbury, Massachusetts (telephone: 508-841-8509) or Mary Carney, Senior Vice President, First Southwest Company, Boston, Massachusetts (telephone: 508-797-3035).
Final Official Statement:	Within seven (7) business days following the award of the Bonds in accordance herewith, at least 100 copies of the Final Official Statement will be available from First Southwest Company for use in reoffering the Bonds. Upon request, additional copies will be provided to the successful bidder to a maximum of one per \$100,000 of par amount purchased.

NOTICE OF SALE

TOWN OF SHREWSBURY, MASSACHUSETTS

\$8,650,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2004 BONDS

The Town of Shrewsbury, Massachusetts, will receive sealed or electronic (as described herein) proposals until 11:00 A.M. (Eastern Time) on Wednesday, November 10, 2004 for the purchase of the following described Bonds of the Town:

\$8,650,000 Municipal Purpose Loan of 2004 Bonds payable as follows:

<u>Due November 15</u>	<u>Principal Amount</u>	<u>Due November 15</u>	<u>Principal Amount</u>
2005	\$455,000	2015	\$450,000
2006	455,000	2016	450,000
2007	455,000	2017	450,000
2008	455,000	2018	450,000
2009	455,000	2019	450,000
2010	455,000	2020	370,000
2011	455,000	2021	370,000
2012	455,000	2022	370,000
2013	455,000	2023	370,000
2014	455,000	2024	370,000

The Bonds will be dated November 15, 2004. Principal of the Bonds will be payable on November 15 of the years in which the Bonds mature. Interest will be payable semiannually on November 15 and May 15, commencing November 15, 2005.

The Bonds will be issued in fully registered form by means of a book-entry system with no physical distribution of Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York, ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, will be evidenced by the book-entry system, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bond certificates with DTC, registered in the name of Cede & Co. Principal of and semiannual interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to Beneficial Owners by participants of DTC will be the responsibility of such participants and other nominees of the Beneficial Owners. The Town will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants, or persons acting through such participants.

Principal of and semiannual interest on the Bonds will be paid by U. S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursements of such payments to the DTC Participants is the responsibility of DTC, and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and Indirect Participants, as more fully described herein.

Bonds maturing on or prior to November 15, 2014 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after November 15, 2015 shall be subject to redemption prior to maturity, at the option of the Town, on or after November 15, 2014, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of the Bonds to be redeemed plus accrued interest to the date set for redemption:

For Bonds maturing after November 15, 2014, bidders may specify that all of the principal amount of such Bonds in any two or more consecutive years may, in lieu of maturing in each such year, be combined to comprise one or two Term Bonds, and shall be subject to mandatory redemption or mature at par, as described above, in each of the years and in the principal amounts specified in the foregoing maturity schedule. Each mandatory redemption shall be allocated to the payment of the Term Bond maturing in the nearest subsequent year. Bidders may specify no more than two Term Bonds.

Term Bonds, if any, shall be subject to mandatory redemption on November 15 of the year or years immediately prior to the stated maturity of such Term Bonds (the particular Bonds of such maturity to be redeemed to be selected by lot), as indicated in the foregoing maturity schedule at the principal amount thereof plus accrued interest to the redemption date, without premium.

Bidders shall state the rate or rates of interest per annum which the Bonds are to bear in a multiple of one-twentieth or one-eighth of one percent, but shall not state (a) more than one interest rate for any Bonds having a like maturity, or (b) any interest rate which exceeds the interest rate stated for any other Bonds by more than three percent. No bid of less than par and accrued interest to date of delivery will be considered.

As between proposals, which comply with this Notice, the award will be to the bidder who offers to purchase all the Bonds at the lowest net effective interest rate to the Town. Such interest rate shall be determined on a true interest cost (TIC) basis, which shall mean that rate which, as of November 15, 2004, discounts semiannually all future payments on account of principal and interest to the price bid, not including interest accrued to date of delivery, which accrued interest shall be paid by the successful bidder. In the event there is more than one proposal specifying the lowest such rate, the Bonds will be awarded to the bidder whose proposal is selected by the Town Treasurer by lot among all such proposals.

Bids must be submitted either:

- (a) In a sealed envelope marked "Proposal for Bonds" and addressed to Ms. Carolyn J. Marcotte, Treasurer, Town of Shrewsbury, Massachusetts, c/o First Southwest Company, 54 Canal Street, 3rd Floor, Boston, Massachusetts 02114. Proposals by telegram delivered as specified above will be accepted. Signed blank bid forms may be faxed to (617) 619-4411 prior to submitting bids, and actual bids may be telephoned to First Southwest Company, telephone (617) 619-4400, at least one-half hour prior to the 11:30 A.M. sale and after receipt of the faxed bid form by First Southwest Company. First Southwest Company will act as agent for the bidder, but neither the Town nor First Southwest Company shall be responsible for any errors in connection with bids submitted in this manner.
- (b) Electronically via PARITY in accordance with this Notice of Sale. To the extent any instructions or directions set forth in PARITY conflict with this Notice of Sale, the terms of this Notice of Sale shall control. For further information about PARITY, potential bidders may contact the financial advisor to the Town or Dalcomp at 40 West 23rd Street, 5th Floor, New York, New York 10010, telephone (212) 404-8102.

The right is reserved to reject any or all proposals and to reject any proposal not complying with this Notice of Sale and, so far as permitted by law, to waive any irregularity or informality with respect to any proposal.

It shall be a condition of the successful bidder's obligation to accept delivery of and pay for the Bonds that, contemporaneously with or before accepting the Bonds and paying therefor, it shall be furnished, without cost, with (a) the approving opinion of the firm of Palmer & Dodge LLP, Boston, Massachusetts, substantially in the form presented in Appendix B to the Preliminary Official Statement dated November 1, 2004, (b) a certificate in form satisfactory to said firm, dated as of the date of delivery of the Bonds and receipt of payment therefor, to the effect that there is no litigation pending or, to the knowledge of the signer or signers thereof, threatened affecting the validity of the Bonds or the power of the Town to levy and collect taxes to pay them, (c) a certificate of the Town Treasurer to the effect that, to the best of her knowledge and belief, both the Preliminary Official Statement as of the date of sale and the Final Official Statement as of the date of delivery of the Bonds referred to below do not contain any untrue statement of a material fact and do not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading, and (d) a Continuing Disclosure Certificate in the form described in the Preliminary Official Statement to be dated as of the date of delivery of the Bonds and incorporated by reference in the Bonds.

The Town of Shrewsbury has not contracted for the issuance of any policy of municipal bond insurance for the Bonds. If the Bonds qualify for issuance of any such policy or commitment therefor, any purchase of such insurance or commitment shall be at the sole option and expense of the bidder. Proposals shall not be conditioned upon the issuance of any such policy or commitment. Any failure of the Bonds to be so insured or of any such policy or commitment to be issued shall not in any way relieve the purchaser of his contractual obligations arising from the acceptance of its proposal for the purchase of the Bonds. Should the bidder purchase municipal bond insurance, all expenses associated with such policy or commitment will be borne by the bidder, except for the fee paid to Moody's Investors Service, Inc. for the rating on the Bonds. Any such fee paid to Moody's Investors Service, Inc. would be borne by the Issuer.

Additional information concerning the Town of Shrewsbury and the Bonds is contained in the Preliminary Official Statement dated November 1, 2004, to which prospective bidders are directed. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Notice of Sale. Such Preliminary Official Statement is deemed final by the Town as of its date for the purposes of SEC Rule 15c2-12(b)(1), except for the omission of reoffering price(s), interest rate(s), delivery date, any other terms of the Bonds depending on such matters, and the identity of the underwriter(s) but is subject to change without notice and to completion or amendment in a Final Official Statement. Copies of the Preliminary Official Statement and a suggested form of proposal for the Bonds may be obtained from First Southwest Company, 54 Canal Street - 3rd Floor, Boston, Massachusetts 02114, telephone number (617) 619-4400. Within seven business days following award of the Bonds and receipt of necessary information from the successful bidder, at least 25 copies of the Final Official Statement will be made available to the successful bidder. Upon request, additional copies will be provided to the successful bidder to a maximum of one per \$100,000 of par amount purchased.

It is anticipated that CUSIP identification numbers will be printed on the Bonds, but neither the failure to print such number on any Bond, nor any error with respect thereto, shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and pay for the Bonds. The Town assumes no responsibility for any CUSIP Service Bureau or other charges that may be imposed for the assignment of such numbers.

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.

In order to assist bidders in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission, the Town will undertake to provide annual reports and notices of certain material events. A description of this undertaking is set forth in the Preliminary Official Statement.

The Bonds, in definitive form, will be delivered to The Depository Trust Company on or about November 19, 2004 against payment in federal reserve funds.

TOWN OF SHREWSBURY
/s/ Ms. Carolyn J. Marcotte
Town Treasurer/Collector

November 1, 2004

OFFICIAL STATEMENT

TOWN OF SHREWSBURY, MASSACHUSETTS

\$8,650,000 GENERAL OBLIGATION MUNICIPAL PURPOSE LOAN OF 2004 BONDS

INTRODUCTION

This Official Statement is provided for the purpose of presenting certain information relating to the Town of Shrewsbury, Massachusetts (the "Town"), in connection with the sale of \$8,650,000 aggregate principal amount of its General Obligation Municipal Purpose Loan of 2004 Bonds, referred to herein as the "Bonds." The information contained herein has been furnished by the Town, except information attributed to another governmental agency or official as the source.

The Bonds are being offered for sale at public bidding on Wednesday, November 10, 2004, and a Notice of Sale dated November 1, 2004 has been furnished to prospective bidders containing the terms and conditions for bidding.

The Bonds will be general obligations of the Town for which its full faith and credit are pledged. Their payment is not limited to a particular fund or revenue source. For details, see "THE BONDS - Security and Remedies," below.

THE BONDS

Description of the Bonds

The Bonds will be dated November 15, 2004 and will bear interest payable semiannually on November 15 and May 15 of each year until maturity, commencing November 15, 2005, at the rate or rates of interest determined upon their sale in accordance with the Notice of Sale dated November 1, 2004. The Bonds shall mature on November 15 of the years and in the principal amounts as set forth on the cover page of this Official Statement.

The Bonds will be issued in fully registered form by means of a book-entry system with no physical distribution of Bond certificates made to the public. One Bond certificate for each maturity will be issued to The Depository Trust Company, New York, New York, ("DTC"), and immobilized in its custody. Ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof, will be evidenced by the book-entry system, with transfers of beneficial ownership effected on the records of DTC and its participants pursuant to rules and procedures adopted by DTC. The winning bidder, as a condition to delivery of the Bonds, shall be required to deposit the Bond certificates with DTC, registered in the name of Cede & Co. Principal of and interest on the Bonds will be payable to DTC or its nominee as registered owner of the Bonds. Transfer of principal and interest payments to participants of DTC will be the responsibility of DTC; transfer of principal and interest payments to Beneficial Owners by participants of DTC will be the responsibility of such participants and other nominees of the Beneficial Owners. The Town will not be responsible or liable for maintaining, supervising, or reviewing the records maintained by DTC, its participants, or persons acting through such participants.

Principal of and semiannual interest on the Bonds will be paid by U. S. Bank National Association, Boston, Massachusetts, or its successor, as Paying Agent. So long as DTC or its nominee, Cede & Co., is the Bondowner, such payments will be made directly to DTC. Disbursements of such payments to the DTC Participants is the responsibility of DTC and disbursements of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants, as more fully described herein.

The Bonds are subject to redemption as described below.

Redemption Provisions

Optional Redemption

Bonds maturing on or prior to November 15, 2014 shall not be subject to redemption prior to their stated maturity dates. Bonds maturing on or after November 15, 2015 shall be subject to redemption prior to maturity, at the option of the Town, on or after November 15, 2014, either in whole or in part at any time, and if in part, by lot within a maturity, at the par amount of Bonds to be redeemed plus accrued interest to the date set for redemption.

Mandatory Redemption

If the successful bidder designates principal amounts of the Bonds to be combined into one or two Term Bonds (which may be done only for principal amounts in consecutive years and only for the years after 2014), each such Term Bond shall be subject to mandatory redemption commencing on November 15 of the first year which has been combined to form such Term Bonds and continuing on November 15 in each year thereafter until the stated maturity date of that Bond. The amount redeemed or paid at maturity in any year shall be equal to the principal amount for that year set forth in the schedule on the cover of this Official Statement. Principal amounts to be redeemed in any year by mandatory redemption shall be redeemed at par (without premium), plus accrued interest to the redemption date, and shall be selected by lot from among the Bonds then subject to redemption. The Town Treasurer may credit against any mandatory redemption requirement Term Bonds which have been purchased and cancelled by the Town or have been redeemed and not theretofore applied as a credit against any mandatory redemption requirement.

Notice of Redemption

So long as DTC is the registered owner of the Bonds, notice of any redemption of Bonds prior to their maturities, specifying the Bonds (or the portion thereof) to be redeemed shall be mailed to DTC not more than 60 days nor less than 30 days prior to the redemption date. Any failure on the part of DTC to notify the DTC Participants of the redemption or failure on the part of the DTC Participants, Indirect Participants, or of a nominee of a Beneficial Owner (having received notice from DTC Participant or otherwise) to notify the Beneficial Owner shall not affect the validity of the redemption.

Book-Entry Only System

The Depository Trust Company ("DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued in fully registered form and will be registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond Certificate will be issued for the each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 2 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments from over 85 countries that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of bond and note certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of Direct Participants of DTC and Members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation, and Emerging Markets Clearing Corporation, (NSCC, GSCC, MBSCC, EMCC, also subsidiaries of DTCC), as well as the New York Stock Exchange, Inc., the American Stock Exchange LLC, and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchasers of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time.

Redemption notices shall be sent to DTC. If less than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Town or its paying agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such Participant and not of DTC, nor its nominee, the Town or its paying agent, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Town or its paying agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Bonds any time by giving reasonable notice to the Town or its paying agent. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The Town may decide to discontinue use of the system of book-entry system transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the Town believes to be reliable, but the Town takes no responsibility for the accuracy thereof.

Record Date

The record date for each payment of interest is the last business day of the month preceding the interest payment date, provided that with respect to overdue interest or interest on any overdue amount, the Paying Agent may establish a special record date. The special record date may not be more than twenty days before the date set for payment. The Paying Agent will mail notice of a special record date to the bondholders at least ten days before the special record date.

Rating

Moody's Investors Service, Inc. has assigned a rating of "Aaa" to the Bonds with the understanding that upon delivery of the Bonds, a policy insuring the payment when due of the principal of and interest on the Bonds will be issued by Ambac. See Appendix D attached hereto for a discussion of Ambac insurance and the rating assigned to Bonds insured by Ambac. Said rating reflects only the rating agency's views and is subject to revision or withdrawal, which could affect the market price of the Bonds.

Financial Advisory Services of First Southwest Company

First Southwest Company, Boston, Massachusetts, serves as financial advisor to the Town of Shrewsbury. The Town has consented to participation by First Southwest Company in the public bidding on the Bonds if it so desires.

Authorization of the Bonds and Use of Proceeds

Purpose	Date Authorized	This Issue	Total Authorization	BANs Outstanding	MGL Statutory Reference
School Addition	5/20/2002	\$ 1,250,000	\$ 1,830,000	\$ 1,300,000	C44 s7(3)
School Renovation(1)	2/16/2000	7,400,000	22,000,000	19,600,000	(2) C44 s7(3a)
		<u>\$ 8,650,000</u>		<u>\$ 20,900,000</u>	

(1) Represents the Town's share of the School Renovation Project. Exempt from Proposition 2 ½.

(2) \$12,200,000 is expected to be renewed to August 15, 2005.

Principal Payments by Purpose

Calendar Year	School Addition	School Renovation	Total
2005	\$ 370,000	\$ 85,000	\$ 455,000
2006	370,000	85,000	455,000
2007	370,000	85,000	455,000
2008	370,000	85,000	455,000
2009	370,000	85,000	455,000
2010	370,000	85,000	455,000
2011	370,000	85,000	455,000
2012	370,000	85,000	455,000
2013	370,000	85,000	455,000
2014	370,000	85,000	455,000
2015	370,000	80,000	450,000
2016	370,000	80,000	450,000
2017	370,000	80,000	450,000
2018	370,000	80,000	450,000
2019	370,000	80,000	450,000
2020	370,000		370,000
2021	370,000		370,000
2022	370,000		370,000
2023	370,000	-	370,000
2024	370,000	-	370,000
Total	<u>\$ 7,400,000</u>	<u>\$ 1,250,000</u>	<u>\$ 8,650,000</u>

Security and Remedies

Full Faith and Credit. General obligation bonds and notes of a Massachusetts city or town constitute a pledge of its full faith and credit. Payment is not limited to a particular fund or revenue source. Except for "qualified bonds" as described below (see "Serial Bonds and Notes" under "INDEBTEDNESS - Types of Obligations" below) and setoffs of state distributions as described below (see "State Distributions" below), no provision is made by the Massachusetts statutes for priorities among bonds and notes and other general obligations, although the use of certain moneys may be restricted.

Tax Levy. The Massachusetts statutes direct the municipal assessors to include annually in the tax levy for the next fiscal year "all debt and interest charges matured and maturing during the next fiscal year and not otherwise provided for [and] all amounts necessary to satisfy final judgments." Specific provision is also made for including in the next tax levy payment of rebate amounts not otherwise provided for and payment of notes in anticipation of federal or state aid if the aid is no longer forthcoming.

The total amount of a tax levy is limited by statute. However, the voters in each municipality may vote to exclude from the limitation any amounts required to pay debt service on indebtedness incurred before November 4, 1980. Local voters may also vote to exempt specific subsequent bond issues from the limitation. (See "Tax Limitations" under "PROPERTY TAXATION" below.) In addition, obligations incurred before November 4, 1980 may be constitutionally entitled to payment from taxes in excess of the statutory limit.

Except for taxes on the increased value of certain property in designated development districts which may be pledged for the payment of debt service on bonds issued to finance economic development projects within such districts, no provision is made for a lien on any portion of the tax levy to secure particular bonds or notes or bonds and notes generally (or judgments on bonds or notes) in priority to other claims. Provision is made, however, for borrowing to pay judgments, subject to the General Debt Limit. (See "Debt Limits" below.) Subject to the approval of the State Director of Accounts for judgments above \$10,000, judgments may also be paid from available funds without appropriation and included in the next tax levy unless other provision is made.

Court Proceedings. In the opinion of Palmer & Dodge LLP, Bond Counsel, Massachusetts cities and towns are subject to suit on their general obligation bonds and notes and courts of competent jurisdiction have power in appropriate proceedings to order payment of a judgment on the bonds or notes from lawfully available funds or, if necessary, to order the city or town to take

lawful action to obtain the required money, including the raising of it in the next annual tax levy, within the limits prescribed by law. (See "Tax Limitations" under "PROPERTY TAXATION " below.) In exercising their discretion as to whether to enter such an order, the courts could take into account all relevant factors including the current operating needs of the city or town and the availability and adequacy of other remedies. The Massachusetts Supreme Judicial Court has stated in the past that a judgment against a municipality can be enforced by the taking and sale of the property of any inhabitant. However, there has been no judicial determination as to whether this remedy is constitutional under current due process and equal protection standards.

Restricted Funds. Massachusetts statutes also provide that certain water, gas and electric, sewer, parking meter and passenger ferry fee receipts may be used only for water, gas and electric, sewer, parking, mitigation of ferry service impacts and related purposes, respectively; accordingly, moneys derived from these sources may be unavailable to pay general obligation bonds and notes issued for other purposes. A city or town that accepts certain other statutory provisions may establish an enterprise fund for a utility, health care, solid waste, recreational or transportation facility and for police or fire services; under those provisions any surplus in the fund is restricted to use for capital expenditures or reduction of user charges. In addition, subject to certain limits, a city or town may annually authorize the establishment of one or more revolving funds in connection with use of certain revenues for programs that produce those revenues; interest earned on a revolving fund is treated as general fund revenue. Also, the annual allowance for depreciation of a gas and electric plant is restricted to use for plant renewals and improvements, for nuclear decommissioning costs, and costs of contractual commitments or, with the approval of the State Department of Telecommunications and Energy, to pay debt incurred for plant reconstruction or renewals. Revenue bonds and notes issued in anticipation of them may be secured by a prior lien on specific revenues. Receipts from industrial users in connection with industrial revenue financing are also not available for general municipal purposes.

State Distributions. State grants and distributions may in some circumstances be unavailable to pay general obligation bonds and notes of a city or town in that the State Treasurer is empowered to deduct from such grants and distributions the amount of any debt service paid on "qualified bonds" (see "Serial Bonds and Notes" under "Types of Obligations" below) and any other sums due and payable by the city or town to the Commonwealth, or certain other public entities, including any unpaid assessments for costs of any public transportation authority (such as the Massachusetts Bay Transportation Authority or a regional transit authority) of which it is a member, for costs of the Massachusetts Water Resources Authority or the Metropolitan District Commission if the city or town is within the territory served by either of those entities, or for charges necessary to meet obligations under the Commonwealth's Water Pollution Abatement or Drinking Water Revolving Loan Programs, including such charges imposed by another local governmental unit that provides wastewater or drinking water treatment or collection services to the city or town.

If a city or town is (or is likely to be) unable to pay principal or interest on its bonds or notes when due, it is required to notify the State Commissioner of Revenue. The Commissioner shall in turn, after verifying the inability, certify the inability to the State Treasurer. The State Treasurer shall pay the due or overdue amount to the paying agent for the bonds or notes, in trust, within three days after the certification or one business day prior to the due date (whichever is later). This payment is limited, however, to the estimated amount otherwise distributable by the Commonwealth to the city or town during the remainder of the fiscal year (after the deductions mentioned in the foregoing paragraph). If for any reason any portion of the certified sum has not been paid at the end of the fiscal year, the State Treasurer shall pay it as soon as practicable in the next fiscal year to the extent of the estimated distributions for that fiscal year. The sums so paid shall be charged (with interest and administrative costs) against the distributions to the city or town.

The foregoing does not constitute a pledge of the faith and credit of the Commonwealth. The Commonwealth has not agreed to maintain existing levels of state distributions, and the direction to use estimated distributions to pay debt service may be subject to repeal by future legislation. Moreover, adoption of the annual appropriation act has sometimes been delayed beyond the beginning of the fiscal year and estimated distributions which are subject to appropriation may be unavailable to pay local debt service until they are appropriated.

Bankruptcy. Enforcement of a claim for payment of principal or interest on general obligation bonds or notes would be subject to the applicable provisions of Federal bankruptcy laws and to the provisions of other statutes, if any, hereafter enacted by the Congress or the State legislature extending the time for payment or imposing other constraints upon enforcement insofar as the same may be constitutionally applied.

Opinion of Bond Counsel

The unqualified approving opinion as to the validity of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel. The opinion will be dated the date of original delivery of the Bonds to the successful bidder and will speak only as of such date. The proposed form of the legal opinion is set forth in Appendix B hereto.

Except as to matters expressly set forth in their opinion, the scope of engagement of Bond Counsel does not extend to passing upon or assuming responsibility for the accuracy or adequacy of any statement made in this Official Statement, and they make no representation that they have independently verified the same.

Tax Exemption

In the opinion of Palmer & Dodge LLP, Bond Counsel to the Town ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Town has covenanted to comply with certain restrictions designed to ensure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that any pending, proposed or future legislation, including amendments to the Code, if enacted into law, or any regulatory or administrative development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect the federal or state tax liability of a holder of the Bonds. Among other possible consequences of ownership or disposition of, or the accrual or receipt of interest on, the Bonds, the Code requires recipients of certain social security and certain railroad retirement benefits to take into account receipts or accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income. The nature and extent of all such other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Except as indicated in the following paragraph, Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

Bank Eligibility

The Bonds will not be designated as "qualified tax-exempt obligations" for purposes of Section 265(b)(3) of the Code. Accordingly, in the opinion of Bond Counsel, no deduction will be allowed to a financial institution for any of its interest expense allocable to the Bonds.

Continuing Disclosure

In order to assist the Underwriters in complying with Rule 15c2-12(b)(5) promulgated by the Securities and Exchange Commission (the “Rule”), the Town will covenant for the benefit of the owners of the Bonds to provide certain financial information and operating data relating to the Town by not later than 270 days after the end of each fiscal year (the “Annual Report”), and to provide notices of the occurrence of certain enumerated events, if material. The covenants will be contained in a Continuing Disclosure Certificate, the proposed form of which is provided in Appendix C hereto. The Certificate will be executed by the signers of the Bonds, and incorporated by reference in the Bonds.

The Town has never failed to provide annual reports or notices of material events in accordance with the Rule.

TOWN OF SHREWSBURY

General

The Town of Shrewsbury is located in Worcester County approximately 35 miles west of Boston and borders the City of Worcester on the east. Incorporated as a town in 1727, Shrewsbury has a population of approximately 31,640 (2000 U.S. Bureau of the Census) and occupies a land area of 20.78 square miles. The Town is governed by a representative town meeting and administered by a five-member Board of Selectmen and a Town Manager. The following table sets forth the Town's principal executive officials.

PRINCIPAL TOWN OFFICIALS

Title	Name	Manner of Selection	Term Expires
Selectmen	John I. Lebeaux	Elected	May 2007
Selectmen	Thomas A. Fiore	Elected	May 2007
Selectmen	Philip S. Hammond	Elected	May 2006
Selectmen	Maurice M. DePalo	Elected	May 2005
Selectmen	Bruce R. Card	Elected	May 2005
Town Manager	Daniel J. Morgado	Appointed	September 2006
Treasurer/Collector	Carolyn J. Marcotte	Appointed	March 2007
Town Accountant	Mary E. Thompson	Appointed	December 2004
Town Clerk	Ann M. Dagle	Elected	May 2006
Town Counsel	T. Phillip Leader	Appointed	June 2005

Municipal Services

The Town provides general governmental services for the territory within its boundaries, including police and fire protection, collection and disposal of rubbish, public education in grades kindergarten through twelve, street maintenance and parks and recreational facilities.

Shrewsbury's water department is a self-supporting operation servicing approximately 98% of the Town by seven pumping stations, three booster stations, five water storage tanks and over 130 miles of water mains. The Town's sewer department services approximately 80% of the Town. Sewer costs are met, in part, by betterment assessments and user charges and are generally sufficient to cover sewer operating expenses, exclusive of the debt service applicable to the Westborough Waste Water Treatment Facility as prescribed by the facility's enabling legislation.

Electric Light: The Town has operated a municipal light department since 1908. Power is purchased primarily from Massachusetts Municipal Wholesale Electric Company and four other utilities. The Light Department is subject to regulation by the Massachusetts Department of Telecommunications and Energy.

Cable Television: The Light Department has operates a state-of-the-art cable television system (Shrewsbury Community Cablevision-SCC). Currently 11,869 households in Town subscribe to this service, a percentage of about 20 percent higher than the national average.

High-Speed Internet Access: Shrewsbury Community Cablevision also offers high-speed Internet access to residents and business. Currently, 5,860 internet customers are using the system.

Upon the recent abolishment of Worcester County the Commonwealth assumed the provision of all principal county services, including the jail, house of correction and the registry of deeds. The legislation which abolished Worcester County requires the State Secretary for Administration and Finance to establish a plan to recover the Commonwealth's expenditures for liabilities and other debts assumed and paid by the Commonwealth on behalf of an abolished county. Unless these provisions are changed by further legislation, the state treasurer shall assess upon each city and town within the jurisdiction of an abolished county an amount equal to the county tax paid by each city and town for the fiscal year immediately prior to the abolishment of the county until such expenditures by the Commonwealth are recovered.

Education

The Town's public school facilities presently include an early childhood center for Pre-K to Kindergarten; four elementary schools for grades 1 through 4; two middle schools, grades 5 & 6 in Sherwood Middle and grades 7 & 8 in Oak Middle School (the renovation of which is being financed in part by the Bonds) and a senior high school (9-12). In addition, the Town leases a 2,500 square foot facility for the Pre-K special education classes.

The following table sets forth the trend in public school enrollments for the Town for the school years indicated.

PUBLIC SCHOOL ENROLLMENTS OCTOBER 1,

	Actual					Projected	
	2000	2001	2002	2003	2004	2005	2008
Elementary (PreK - 5)	2,661	2,751	2,840	2,941	2,749	2,806	2,830
Middle School (6 - 8)	1,123	1,130	1,244	1,311	1,384	1,417	1,548
High School (9 - 12)	1,044	1,049	1,234	1,312	1,428	1,522	1,743
Totals	<u>4,828</u>	<u>4,930</u>	<u>5,318</u>	<u>5,564</u>	<u>5,561</u>	<u>5,745</u>	<u>6,121</u>

Industry and Commerce

Shrewsbury is primarily a residential suburban community, with a diversified manufacturing base located within the Worcester Standard Metropolitan Statistical Area.

EMPLOYMENT AND PAYROLLS

Industry	Calendar Year Average				
	1997	1998	1999	2000	2001
Government	2,160	2,205	2,223	2,253	2,360
Agriculture	88	96	90	94	96
Construction	385	412	412	406	442
Manufacturing	3,273	3,674	3,190	2,738	2,436
Trans., Comm. and Pub. Util.	1,758	2,022	2,141	2,139	2,077
Wholesale & Retail Trade	3,481	3,507	3,751	3,682	3,565
Finance, Insurance and Real Estate	363	353	357	354	368
Services	2,113	2,338	2,320	2,055	2,051
Total Employment	<u>13,621</u>	<u>14,607</u>	<u>14,484</u>	<u>13,721</u>	<u>13,395</u>
Number of Establishments	716	736	756	750	769
Average Annual Wage	\$35,052	\$38,161	\$39,393	\$43,069	\$44,782
Total Annual Payroll(000)	<u>\$478,945</u>	<u>\$559,179</u>	<u>\$572,338</u>	<u>\$592,550</u>	<u>\$601,427</u>

Due to the reclassification the U.S. Department of Labor now uses the North American Industry Classification System (NAICS) as the basis for the assignment and tabulation of economic data by industry.

Industry	Calendar Year Average	
	2002	2003
Construction	553	580
Manufacturing	2,216	1,797
Trade, Transportation & Utilities	5,600	5,677
Information	151	153
Financial Activities	521	512
Professional and Business Services	724	631
Education and Health Services	2,089	2,123
Leisure and Hospitality	978	1,040
Other Services	322	342
Total Employment	13,154	12,855
Number of Establishments	829	854
Average Weekly Wages	\$ 827	\$ 792
Total Wages	\$ 576,354,984	\$ 539,009,546

LARGEST EMPLOYERS 2004

Name	Production/Function	Approximate No. of Employees
Mescaster Company, Inc. (UPS)	Parcel Delivery	1,275
Hewlett Packard	Computers	975
United States Post Office	Distribution Facility	780
Maxtor Corp.	Computers	610
Spags 19	Retail Store	425
Home Depot	Retail	294
Metso Automation	Ball Valves	224
Irving A. Glavin Regional Health Center	Regional Mental Health Center	200
University of Massachusetts Medical School (Worcester Foundation)	Research Lab	175
Hebert Candy Mansion	Candy Makers	150
Christmas Tree Shops	Retail	130

SOURCE: The individual employers listed.

Labor Force, Employment and Unemployment

UNEMPLOYMENT RATES

The following table sets for the Labor force and unemployment rates for the Town of Shrewsbury as well as the unemployment rates for the Commonwealth and the United States for the years indicated.

Year	Town of Shrewsbury		Massachusetts Unemployment Rate	United States Unemployment Rate
	Labor Force	Unemployment Rate		
2004 (Aug.)	18,059	4.5 %	5.3 %	5.4 %
2003	17,724	4.8	5.8	6.0
2002	16,407	4.8	5.3	5.8
2001	15,425	3.3	3.7	4.7
2000	15,070	2.2	2.6	4.0

SOURCE: Mass. Department of Employment and Training, Federal Reserve Bank of Boston and U.S. Bureau of Labor Statistics. Data based upon place of residence not place of employment.

BUILDING PERMITS

The following table sets forth the number of building permits issued and the estimated dollar value of new construction and alterations for the calendar years indicated. Permits are filed for both private construction and Town projects.

Year	New Construction				Additions/Alterations		Total	
	Residential		Non-Residential					
	No.	Value	No.	Value	No.	Value	No.	Value
2003	92	\$17,414,122	4	\$68,500	599	\$14,990,576	695	\$32,473,198
2002	149	27,737,746	12	6,204,505	742	32,682,130	903	66,624,381
2001	126	22,881,652	8	6,366,100	353	18,904,206	487	48,151,958
2000	178	29,992,297	8	46,505,000 (1)	280	10,112,028	466	86,609,325
1999	268	38,813,560	14	8,877,385	253	8,754,427	535	56,445,372

SOURCE: Report of the Building Inspector.

(1) Includes the value of the new high school permit for \$43,207,000.

Population and Income

The following table compares the median age, median family income and per capita income for Shrewsbury, the Commonwealth, and the United States as a whole.

POPULATION AND INCOME

	Shrewsbury	Massachusetts	United States
Median Age:			
2000	37.6	36.5	35.3
1990	33.7	33.6	32.9
Median Family Income:			
2000	\$64,237	\$ 61,664	\$ 50,046
1990	53,208	44,367	35,225
Per Capita Income:			
2000	\$31,570	\$ 25,952	\$ 21,587
1990	20,508	17,224	14,420

(1) Estimate by Federal Census Bureau

On the basis of the 2000 Federal census, the Town has a population density of approximately 1,526 persons per square mile.

POPULATION TRENDS

<u>2000</u>	<u>1990</u>	<u>1980</u>	<u>1970</u>
31,640	24,146	22,674	19,196

SOURCE: Federal Census.

PROPERTY TAXATION

Tax Levy Computation

The principal general fund revenue source of the Town is the tax on real and personal property. The amount to be levied in each year is the amount appropriated or required by law to be raised for municipal expenditures less estimated receipts from other sources and less appropriations voted from funds on hand. The total amount levied is subject to certain limits prescribed by law; for a description of those limits, see "Property Tax Limitation" below. As to the inclusion of debt service and final judgments, see "THE BONDS--Security and Remedies", above. The estimated receipts for a fiscal year from sources other than the property tax may not exceed the actual receipts during the preceding fiscal year from the same sources unless approved by the State Commissioner of Revenue. Excepting special funds the use of which is otherwise provided for by law, the deduction for appropriations voted from funds on hand for a fiscal year cannot exceed the "free cash" as of the beginning of the prior fiscal year as certified by the State Director of Accounts plus up to nine months' collections and receipts on account of earlier years' taxes after that date. Subject to certain adjustments, free cash is surplus revenue less uncollected overdue property taxes from earlier years. Although an allowance is made in the tax levy for abatements (see "Overlay" below) no reserve is generally provided for uncollectible real property taxes. Since some of the levy is inevitably not collected, this creates a cash deficiency which may or may not be offset by other items (See "Taxation to Meet Deficits").

The following table illustrates the trend in the manner in which the tax levy was determined.

TAX LEVY COMPUTATION

	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004
Total Appropriations(1)	\$57,532,106	\$59,547,857	\$63,516,976	\$68,397,505	\$76,082,197
Additions:					
State and County Assessments	213,942	201,558	194,113	205,797	434,305
Overlay Reserve	213,975	323,213	257,908	301,261	465,564
Other Additions	62,867	184,712	194,713	68,628	67,986
Total Additions	490,784	709,483	646,734	575,686	967,855
Gross Amount to be Raised	58,022,890	60,257,340	64,163,710	68,973,191	77,050,051
Deductions:					
Local Estimated Receipts	9,343,600	9,302,066	9,693,984	9,521,090	10,244,000
State Aid(2):					
Current Year	9,596,115	10,595,853	11,651,382	12,680,171	16,746,262
Prior Year's Overestimate	482	4,982	0		
Available Funds(3):					
Free Cash	4,460,784	2,478,000	1,056,827	1,501,785	3,000,000
Municipal Light	111,886	118,519	115,500	0	0
Cable Television	250,000	250,000	250,000	0	0
Free Cash & Other Revenue Used to Reduce the Tax Rate	0	0	0	4,103,791	1,181,003
Other Available Funds	5,633,008	5,283,834	5,335,053	4,139,052	6,329,653
Total Deductions	29,395,875	28,033,254	28,102,746	31,945,889	37,500,918
Net Amount to be Raised (Tax Levy)	\$28,627,015	\$32,224,086	\$36,060,964	\$37,027,302	\$39,549,134

- (1) Includes additional appropriations from taxation voted subsequent to adoption of the annual budget but prior to setting of the tax rate.
- (2) Estimated by the State Department of Revenue and required by law to be used in setting of the tax rate. Actual state aid payments may vary upward or downward from said estimates, and the State may withhold payments pending receipt of State and County assessments.
- (3) Transfers from other available funds, including "free cash", generally made as an offset to a particular appropriation item.

Assessed Valuations and Tax Levies

Property is classified for the purpose of taxation according to its use. The legislature has in substance created three classes of taxable property: (1) residential real property, (2) open space land, and (3) all other (commercial, industrial and personal property). Within limits, cities and towns are given the option of determining the share of the annual levy to be borne by each of the three categories. Until fiscal year 2004, the share required to be borne by residential real property was at least 50 per cent of its share of the total taxable valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to reduce the required share to be borne by residential real property to at least 45 per cent of its share of the total taxable valuation in fiscal year 2004, 47 per cent in fiscal year 2005, 49 per cent in fiscal year 2006 and 50 per cent thereafter. The effective rate for open space must be at least 75 per cent of the effective rate for residential real property. Until fiscal year 2004, the share of commercial, industrial and personal property was limited to not more than 175 per cent of their share of the total valuation; under legislation enacted in the beginning of 2004, however, cities and towns were authorized to increase the limit on the share of the total taxable valuation of such property to not more than 200 per cent in fiscal year 2004, 197 per cent in fiscal year 2005, 190 per cent in fiscal year 2006, 183 per cent in fiscal year 2007, 175 per cent in fiscal year 2008, and, if the share of such property in a particular city or town exceeded 175 per cent in any of fiscal years 2004 through 2007, 170 per cent in fiscal years 2009 and thereafter. A city or town may also exempt up to 20 per cent of the valuation of residential real property (where used as the taxpayer's principal residence) and up to 10 percent of the valuation of commercial real property (where occupied by certain small businesses). Property may not be classified in a city or town until the State Commissioner of Revenue certifies that all property in the city or town has been assessed at its fair cash value. Such certification must take place every three years.

Related statutes provide that certain forest land, agricultural or horticultural land (assessed at the value it has for these purposes) and recreational land (assessed on the basis of its use at a maximum of 25 per cent of its fair cash value) are all to be taxed at the rate applicable to commercial property. Land classified as forest land is valued for this purpose at five per cent of fair cash value but not less than ten dollars per acre.

Professional revaluations of all real and personal property in the Town to full and fair cash value were completed for use in fiscal years 2001 and 2004.

The following table sets forth the trend in the Town's assessed valuations, tax levies, and tax levies per capita.

Fiscal Year	Real Estate Valuation	Personal Property Valuation	Total Assessed Valuation	Tax Levy	Tax Levy Per Capita(1)
2004	\$3,948,063,638	\$38,744,224	\$3,986,807,862	\$39,549,134	\$1,249.97
2003	3,437,092,676	56,049,097	3,493,141,773	37,027,303	1,170.27
2002	2,596,229,716	59,020,139	2,655,249,855	36,060,964	1,139.73
2001	2,528,939,552	59,340,454	2,588,280,006	32,224,086	1,018.46
2000	2,115,828,075	30,127,106	2,145,955,181	28,627,015	904.77

The following is a breakdown of the Town's assessed valuation of real estate in fiscal 2003 and 2004.

Property Type	2004		2003	
	Amount	% of Total	Amount	% of Total
Residential	\$3,469,508,786	100.9 %	\$2,987,696,968	86.9 %
Commercial	311,890,852	9.1	297,713,708	8.7
Industrial	163,766,000	4.8	149,477,000	4.3
Open Space	2,898,000	0.1	2,205,000	0.1
Total Real Estate	<u>\$3,948,063,638</u>	<u>114.9 %</u>	<u>\$3,437,092,676</u>	<u>100.0 %</u>

LARGEST TAXPAYERS

The following table lists the ten largest taxpayers in the Town based upon assessed valuation for fiscal 2004. All of the properties listed are current in their tax payments.

Name	Nature of Business	Total Assessed Valuation for Fiscal 2004	% of Total Total Valuation For 2004
Maxtor Realty Corporation	Information Storage	\$35,567,400	0.9 %
Digital Equipment Corp	Computers	24,090,100	0.6
Arbor Commons Assoc.	Apartments	22,991,200	0.6
Southgate at Shrewsbury	Assisted Living	20,580,400	0.5
SSB Realty LLC	Real Estate	18,579,300	0.5
Sheridan Apartments	Apartments	14,680,000	0.4
Shrewsbury Village Ltd. Ptrshp	Retail Stores	14,504,800	0.4
Shrewsbury Commons LLC	Apartments	13,241,900	0.3
Shrewsbury KSI/Kimco Realty Corp.	Retail Stores	14,417,500	0.4
SSR Apartment Value Fund II LP	Apartments	14,010,400	0.4
Imperial Village Apartments	Apartments	13,739,200	0.3
		<u>\$206,402,200</u>	<u>5.2 %</u>

State Equalized Valuation

In order to determine appropriate relative values for the purposes of certain distributions to and assessments upon cities and towns, the Commissioner of Revenue biennially makes his own redetermination of the fair cash value of the taxable property in each municipality. This is known as the "equalized value". The following table sets forth the trend in equalized valuations of the Town of Shrewsbury.

January 1,	State Equalized Valuation	% Change
2004 (proposed)	\$ 4,240,111,400	30.15 %
2002	3,257,882,400	36.38
2000	2,388,870,700	19.76
1998	1,994,689,800	8.52
1996	1,838,100,900	9.06
1994	1,685,413,700	3.92

Overlay

The Town is authorized to increase each tax levy by an amount approved by the Commissioner of Revenue as an "overlay" to provide for tax abatements. If abatements are granted in excess of the applicable overlay, the resultant "overlay deficit" is required to be added to the next tax levy. An abatement granted after a tax payment has been made is accounted for as a refund on the books of the Town. Abatements are granted where exempt real or personal property has been assessed or where taxable real or personal property has been overvalued or disproportionately valued. The assessors may also abate uncollectible personal property taxes. They may abate real and personal property taxes on broad grounds (including inability to pay) with the approval of the State Commissioner of Revenue.

The following table sets forth the amount of the overlay reserve for the last five fiscal years and actual abatements and refunds granted against each levy.

Fiscal Year	Net Tax Levy(1)	Overlay Reserve		Abatements Granted Through June 30, 2004
		Dollar Amount	As a % of Net Levy	
2004	\$39,083,570	\$465,564	1.2 %	\$239,931
2003	36,726,041	301,261	0.8	225,741
2002	35,803,056	257,908	0.7	204,851
2001	31,900,873	323,213	1.0	236,270
2000	28,413,040	213,978	0.8	207,653

(1) Gross tax levy minus overlay reserve for abatements.

Tax Collections

Beginning in fiscal 1991, the Town instituted quarterly tax billings with tax bills payable August 1, November 1, February 1, and May 1 of each fiscal year. Interest accrues on delinquent taxes at the rate of 14 percent per annum. Under recent legislation, cities and towns were authorized to establish a municipal tax amnesty program through June 30, 2004 permitting the payment of delinquent property taxes without interest or with reduced interest during the period of the program. Real property (land and buildings) is subject to a lien for the taxes assessed upon it, subject to any paramount federal lien and subject to bankruptcy and insolvency laws. If the property has been transferred, an unenforced lien expires on the fourth December 31 after the end of the fiscal year to which the tax relates. If the property has not been transferred by the fourth December 31, an unenforced lien expires upon a later transfer of the property. Provision is made, however, for continuation of the lien where it could not be enforced because of a legal impediment. The persons against whom real or personal property taxes are assessed are personally liable for the tax (subject to bankruptcy and insolvency laws). In the case of real property, this personal liability is effectively extinguished by sale or taking of the property as described below.

The following table compares the Town's net tax collections with its net (gross tax levy less overlay reserve for abatements) tax levies for the last five fiscal years.

Fiscal Year	Gross Tax Levy	Overlay Reserve for Abatements	Net Tax Levy	Collections During Fiscal Year Payable (1)		Collections as of June 30, 2004 (1)	
				Dollar Amount	% of Net Levy	Dollar Amount	% of Net Levy
2004	\$ 39,549,134	\$ 465,564	\$ 39,083,570	\$ 39,026,176	99.9 %	\$ 39,026,176	99.9 %
2003	37,027,303	301,261	36,726,042	36,486,617	99.3	36,726,042	100.0
2002	36,060,964	257,908	35,803,056	35,621,717	99.5	35,803,056	100.0
2001	32,224,086	323,213	31,900,873	31,909,212	100.0	31,909,212	100.0
2000	28,627,015	213,975	28,413,040	28,278,727	99.5	28,413,040	100.0

(1) Actual dollar collections net of refunds. Does not include abatements, proceeds of tax titles or tax possessions attributable to each levy or other non-cash credits.

Tax Titles and Possessions

Massachusetts law permits a municipality either to sell by public sale (at which the municipality may become the purchaser) or to take real property for non-payment of taxes. In either case the property owner can redeem the property by paying the unpaid taxes, with interest and other charges, but if the right of redemption is not exercised within six months (which may be extended an additional year in the case of certain installment payments) it can be foreclosed by petition to the Land Court.

Upon such foreclosure, a tax title purchased or taken by the municipality becomes a "tax possession" and may be held and disposed of in the same manner as other land held for municipal purposes. Uncollectible real property taxes are ordinarily not written off until they become municipal tax titles by purchase at the public sale or by taking, at which time the tax is written off in full by reserving the amount of tax and charging surplus.

The following table sets forth the amount of tax titles and possessions outstanding at the end of the fiscal years indicated.

<u>Fiscal Year</u>	<u>Total Tax Titles and Possessions</u>
2004	\$293,222
2003	379,224
2002	315,942
2001	320,632
2000	206,823

Taxation to Meet Deficits

As noted elsewhere (see " Overlay," above) overlay deficits, i.e., tax abatements in excess of the overlay included in the tax levy to cover abatements, are required to be added to the next tax levy. It is generally understood that revenue deficits, i.e., those resulting from non-property tax revenues being less than anticipated, are also required to be added to the tax levy (at least to the extent not covered by surplus revenue).

Amounts lawfully expended since the prior tax levy and not included therein are also required to be included in the annual tax levy. The circumstances under which this can arise are limited since municipal departments are generally prohibited from incurring liabilities in excess of appropriations except for major disasters, mandated items, contracts in aid of housing and renewal projects and other long-term contracts. In addition, utilities must be paid at established rates, and certain established salaries, e.g. civil service, must legally be paid for work actually performed, whether or not covered by appropriations.

In the opinion of Bond Counsel, cities and towns are authorized to appropriate sums, and thus to levy taxes, to cover deficits arising from other causes, such as "free cash" deficits arising from a failure to collect taxes. This is not generally understood, however, and it has not been the practice to levy taxes to cover free cash deficits. Except to the extent that such deficits have been reduced or eliminated by subsequent collections of uncollected taxes (including sales of tax titles and tax possessions), lapsed appropriations, non-property tax revenues in excess of estimates, other miscellaneous items or funding loans authorized by special act, they remain in existence.

Property Tax Limitation

Chapter 580 of the Acts of 1980, which was proposed by an initiative petition known as "Proposition 2 1/2", was adopted at the November 4, 1980 general election and took effect on December 4, 1980. The legislation (as subsequently amended) imposes two separate limits on the annual tax levy of a city or town. The law is subject to amendment or repeal by the legislature.

The primary limitation is that the tax levy cannot exceed 2 1/2 per cent of the full and fair cash value. If a city or town exceeds the primary limitation, it must reduce its tax levy by at least 15 per cent annually until it is in compliance, provided that the reduction can be reduced in any year to not less than 7 1/2 per cent by majority vote of the voters, or to less than 7 1/2 per cent by two-thirds vote of the voters.

For cities and towns at or below the primary limit, a secondary limitation is that the tax levy cannot exceed the maximum levy limit for the preceding fiscal year as determined by the State Commissioner of Revenue by more than 2 1/2 per cent, subject to exception for property added to the tax rolls or property which has had an increase other than as part of a general revaluation, in its assessed valuation over the prior year's valuation. This "growth" limit on the tax levy may be exceeded in any year by a majority vote of the voters, but an increase in the secondary or growth limit under this procedure does not permit a tax levy in excess of the primary limitation, since the two limitations apply independently. In addition, if the voters vote to approve taxes in excess of the "growth" limit for the purpose of funding a stabilization fund, such increased amount may only be taken into account for purposes of calculating the maximum levy limit in each subsequent year if the board of selectmen of a town or the city council of the city votes by a two-thirds vote to appropriate such increased amount in such subsequent year to the stabilization fund.

The applicable tax limits may also be reduced in any year by a majority vote of the voters.

The State Commissioner of Revenue may adjust any tax limit "to counterbalance the effects of extraordinary, non-recurring events which occurred during the base year".

The statute further provides that the voters may exclude from the taxes subject to the tax limits and from the calculation of the maximum tax levy (a) the amount required to pay debt service on bonds and notes issued before November 4, 1980, if the exclusion is approved by a majority vote of the voters, and (b) the amount required to pay debt service on any specific subsequent issue for which similar approval is obtained. Even with voter approval, the holders of the obligations for which unlimited taxes may be assessed do not have a statutory priority or security interest in the portion of the tax levy attributable to such obligations.

Voters may also exclude from the Proposition 2 ½ limits the amount required to pay specified capital outlay expenditures. In addition, the city council of a city, with the approval of the mayor if required, or the board of selectmen or the town council of a town may vote to exclude from the Proposition 2 ½ limits taxes raised in lieu of sewer or water charges to pay debt service on bonds or notes issued by the municipality (or by an independent authority, commission or district) for water or sewer purposes, provided that the municipality's sewer or water charges are reduced accordingly.

In addition, the statute limits the annual increase in the total assessments on cities and towns by any county, district, authority, the Commonwealth or any other governmental entity (except regional school districts, the MWRA and certain districts for which special legislation provides otherwise) to the sum of (a) 2 ½ per cent of the prior year's assessments and (b) "any increases in costs, charges or fees for services customarily provided locally or for services subscribed to at local option." Regional water districts, regional sewerage districts and regional veterans districts may exceed these limitations under statutory procedures requiring a two-thirds vote of the district's governing body and either approval of the registered voters in a local election (in the case of two-member districts). Under the statute any State law to take effect on or after January 1, 1981 imposing a direct service or cost obligation on a city or town will become effective only if accepted or voluntarily funded by the city or town or if State funding is provided. Similarly, State rules or regulations imposing additional costs on a city or town or laws granting or increasing local tax exemptions are to take effect only if adequate State appropriations are provided. These statutory provisions do not apply to costs resulting from judicial decisions.

The Town has been in full compliance with Proposition 2 ½ since its inception. Under the law as now written, the current and future levies may increase by up to 2 ½% of the maximum levy limit for the previous fiscal year, plus by any amounts voted for override and debt exclusion, or "new" valuations or "real" valuation increases.

The table below presents the Town's primary levy limits, its maximum levy limits, and its actual tax levies for fiscal years 2000 through 2004.

Fiscal Year	Estimated Full Valuation(1)	Primary Levy Limit	Maximum Levy Limit	Actual Tax Levy	Under(Over) Primary Levy Limit	Under(Over) Maximum Levy Limit
2004	\$3,986,807,862	\$99,670,197	\$40,381,102	\$39,549,134	\$60,121,063	\$831,968
2003	3,493,141,773	87,328,544	39,777,358	37,027,303	50,301,241	2,750,055
2002	2,655,446,563	66,386,164	36,263,184	36,060,964	30,325,200	202,220
2001	2,588,280,006	64,707,000	32,315,523	32,224,086	32,482,914	91,437
2000	2,145,953,181	53,648,830	30,160,105	28,627,016	25,021,814	1,533,089

(1) Local assessed valuation.

Pledged Taxes

Taxes on certain property in designated development districts may be pledged for the payment of costs of economic development projects within such districts and may therefore be unavailable for other municipal purposes. (See "Tax Increment Financing for Development Districts" below).

TOWN FINANCES

Budget and Appropriation Process

Town Meeting: The annual appropriations of the Town are ordinarily made at the annual meeting which takes place in May. Appropriations may also be voted at special meetings. The Town has a finance committee which submits reports and recommendations on proposed expenditures at town meetings.

As a result of an initiative law adopted in November 1980, school committees are no longer autonomous with respect to school expenditures for current purposes. The school budget is limited to the total amount appropriated by the town meeting, but the school committee retains full power to allocate the funds appropriated.

Under recent legislation, the board of selectmen of a town with the concurrence of the finance committee may transfer within the last 2 months of fiscal years 2004 and 2005 any amount appropriated for the use of any department to the appropriation for any other department, provided that no such transfer may be made from any appropriation for a school department, regional school district, or municipal light department.

Enterprises: The Town meeting does not vote general operating appropriations for the Electric and Community cablevision Departments, but authorizes these self-supporting enterprises to make expenditures from receipts. The manager of the Light Department under the direction and control of the Municipal Light Board may appropriate funds without town approval for both departments.

Mandatory Items: Mandatory items, such as state and county assessments, the overlay for abatements, abatements in excess of overlays, principal and interest not otherwise provided for and final judgments are included in the tax levy whether or not included in the appropriations voted at town meeting.

Revenues: Revenues are not required to be set forth in the budget but estimated non-tax revenues are taken into account by the assessors in fixing the tax levy. (See "THE BONDS-Security for and Remedies" and "PROPERTY TAXATION-Tax Levy Computation".)

Budget Trends

The following table sets forth the trend in operating budgets as voted at annual town meeting. As such, said budgets do not reflect revenues, mandatory items and expenditures authorized for non-recurring (generally capital) purposes under "special" warrant articles or transfers occurring subsequent to the annual town meeting.

BUDGET COMPARISON

	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>
General Government	\$7,504,047	\$8,677,848	\$10,058,754	\$10,696,735	\$12,741,655
Protection of Persons	4,986,847	5,223,667	5,338,432	5,708,118	6,036,850
Health and Sanitation	1,455,574	1,562,771	1,605,039	1,655,936	2,007,846
Public Works	3,039,429	3,201,238	3,322,799	3,373,900	3,552,084
Human Services, Library and Recreation	1,355,727	1,436,391	1,434,941	1,504,474	1,521,697
Education	27,900,000	30,215,700	31,446,592	33,986,104	35,861,996
Debt and Interest	3,148,218	5,042,756	7,657,090	8,967,975	8,696,733
Employee Benefits	1,628,742	1,240,656	1,240,656	1,274,518	1,316,188
State Assessments	196,576	232,947	207,047	250,877	694,057
	<u>\$51,215,160</u>	<u>\$56,833,974</u>	<u>\$62,311,350</u>	<u>\$67,418,637</u>	<u>\$72,429,106</u>

Revenues

Property Taxes: Property taxes are the major source of general fund revenue for the Town. The total amount levied is subject to certain limits prescribed by law; for a description of those limits see "PROPERTY TAXATION-Property Tax Limitation" above. In fiscal 2004 property taxes totaled \$39,026,176 (unaudited).

State Aid: The Town's state aid entitlement is based upon a number of different formulas, and while said formulas might indicate that a particular amount of state aid is owed, the amount of state aid actually paid is limited to the amount appropriated by the state legislature. The state annually estimates state aid but actual payments may vary from the estimate. In fiscal 2004 state aid in the general fund totaled \$16,760,161 (unaudited).

Education Reform: State legislation known as the Education Reform Act of 1993, as amended, imposes certain minimum expenditure requirements on municipalities with respect to funding for education and related programs, and may affect the level of state aid to be received for education. The requirements are determined on the basis of formulas affected by various measures of wealth and income, enrollments, prior levels of local spending and state aid, and other factors. Since its passage, the Town has complied with the Act and appropriations for education have equaled or exceeded the minimum required level.

State School Building Assistance Program: Under its school building assistance program, the Commonwealth of Massachusetts provides grants to cities, towns and regional school districts for school construction projects. Until July 26, 2004, the State Board of Education was responsible for approving grants for school projects and otherwise administering the program. Grant amounts ranged from 50% to 90% of approved project costs. Municipalities generally issued bonds to finance the entire project cost, and the Commonwealth disbursed the grants in equal annual installments over the term of the related bonds. Approved project costs included the interest expense incurred on debt issued by a municipality to finance the school project. In recent years, demand for school building assistance grants far exceeded available funds. As of July 1, 2004, a total of 425 projects for which completed grant applications had been submitted were still on the Department of Education's project priority list awaiting approval of a grant.

Pursuant to legislation which became effective on July 26, 2004, the state legislature created the Massachusetts School Building Authority (the "Authority") to finance and administer the school building assistance program. The Authority has assumed all powers and obligations of the Board of Education with respect to the program. In addition to certain other amounts, the legislation dedicates a portion of Commonwealth sales tax receipts to the Authority to finance the program.

Projects previously approved for grants by the State Board of Education are entitled to receive grant payments from the Authority based on the approved project cost and reimbursement rate applicable under the prior law. It is expected that the Authority will continue to pay the remaining amounts of the grants for such projects in annual installments to reimburse debt service on bonds issued by the municipalities to finance such projects.

Projects on the priority waiting list as of July 1, 2004 are also entitled to receive grant payments from the Authority based on the eligible project costs and reimbursement rates applicable under the prior law. With limited exceptions, the Authority is required to fund the grants for such projects in the order in which they appear on the waiting list. The Authority expects to pay grants for all of the projects on the priority waiting list by the end of fiscal year 2008. Grants for such projects are expected to be paid in lump sum payments, thereby eliminating the need for the Authority to reimburse interest expenses that would otherwise be incurred by the municipalities to permanently finance the Authority's share of such project costs. Interest on debt issued by municipalities prior to July 1, 2004 to finance such project costs, and interest on temporary debt until receipt of the grant, shall be included in the approved costs of such projects.

Grant applications for new projects may not be submitted to the Authority until July 1, 2007. The range of reimbursement rates for such projects has been reduced to between 40% and 80% of approved project costs. Prior to that date, the Authority is required to engage in a comprehensive review of the school building assistance program, to recommend legislative changes, to adopt new maximum eligible cost and size standards, and to promulgate new regulations. The Authority expects to pay grants for such projects in lump sum payments as project costs are incurred. None of the interest expense incurred on debt issued by municipalities to finance new projects will be included in the approved project costs eligible for reimbursement.

Motor Vehicle Excise: An excise is imposed on the registration of motor vehicles (subject to exemptions) at a rate of \$25 per \$1,000 of valuation. Valuations are determined by a statutory formula based on manufacturer's list price and year of manufacture. Bills not paid when due bear interest at 12 per cent per annum. Provision is also made for non-renewal of registration and operating license by the Registrar of Motor Vehicles. In fiscal 2004 excise taxes totaled \$4,260,729 (unaudited).

Water Rates and Services: The Town's Water Department provides water services to most residential, industrial and commercial users within the Town, charging them on the basis of metered consumption. Operations of the Water Department are self-supporting. In fiscal 2004, water operating revenues were \$2,750,427 and expenditures were \$1,723,479 (unaudited).

Sewer Rates and Services: The Town's Sewer Department provides services to most residential, industrial and commercial users within the Town, charging them on the basis of metered water consumption. In fiscal 2004, sewer operating revenues were \$2,440,034 and expenditures were \$2,467,961 of which, sewer debt service on the Westborough Treatment Facility was \$1,519,725 (unaudited).

Enterprise Funds: The Town's municipal electric light and cable television department is a substantial enterprise that provides significant contributions to the general fund. The department is accounted for as an enterprise fund on a December 31 calendar year and is separate from the general funds of the Town. In calendar year 2003, operating revenues of the enterprise fund totaled \$35,016,529. In fiscal 2004, electric light and cable contributed \$452,587 to the general fund to offset the tax rate and \$809,855 for its share of debt service applicable to the enterprise fund.

Annual Audits

The Town's accounts were most recently independently audited for the fiscal year ended June 30, 2003 by Thomas J. Scanlon, Certified Public Accounts, of South Deerfield, Massachusetts. The audit for fiscal year ended June 30, 2003 is attached hereto as Appendix A.

Financial Statements

Set forth on the following pages are an unaudited All Funds Combined Balance Sheet as of June 30, 2004; A Combined Governmental Funds Balance Sheet as of June 30, 2003; Combined All Funds Balance Sheets as of June 30, 2002 and 2001 and a comparative Statements of General Fund Revenues, Expenditures and Changes in Fund Balances for fiscal years 1999 through 2003. Said financial statements (excluding 2004) were extracted from annual audits (other than the fiscal 2004 balance sheet) and then combined for purposes of this presentation. All such statements are presented in accordance with the fund method of accounting described in Appendix A.

TOWN OF SHREWSBURY, MASSACHUSETTS (1)
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2004 (1)

	General Fund	Special Revenue	Capital Proj	Enterprise	Trust & Agency	Long Term Debt	Fixed Assets	Total
Asset								
Cash	\$ (10,544,772)	\$ 11,431,999	\$ 13,970,371	\$ 8,377,250	\$ 12,072,345		\$	35,307,194
Investments	22,888,742							22,888,742
Petty Cash	1,500							1,500
Account Receivable :								-
Retirement Receivable					-			-
Property Taxes	377,876							377,876
Prepaid Prop Taxes (2005)	(39,986)							(39,986)
Excise Taxes	499,178							499,178
Tax Liens	87,459							87,459
Deferred Property Taxes	34,980							34,980
Taxes in Litigation	2,672							2,672
Departmental								-
User Charges	223,795	561,817		2,709,484				3,495,096
Special Assessments	1,671	88,160						89,831
Special Assessments Not Due	236,661	1,201,169						1,437,830
Less: Allowance for Uncollectable	(373,161)							(373,161)
Due from General Fund								-
Due from Governments		865,434						865,434
Tax Foreclosures	205,763							205,763
Land and Buildings								-
Amounts To Be Provided for:								-
Compensated Absenses						924,772		924,772
Payment of BANS			27,000,000					27,000,000
Payment of Bonds				5,505,000		68,182,382		73,687,382
								-
Total Assets	\$ 13,602,378	\$ 14,148,578	\$ 40,970,371	\$ 16,591,734	\$ 12,072,345	\$ 69,107,155	\$ -	\$ 166,492,561
Liabilities								
Employee Withholdings					\$ 1,019,466		\$	1,019,466
Deferred Revenue:								-
Prepaid Taxes	(39,985.93)							(39,986)
Property Taxes	4,715							4,715
Due from State		865,434						865,434
Other	1,055,517	649,977		2,709,484				4,414,977
Special Assessments Not Due	236,661	1,201,169						1,437,830
Prepaid Utility Billing	1,637	4,036						5,673
Due to Treasury Fund								-
Compensated Absenses						924,772		924,772
Grant Anticipation Notes Payable								-
Bond Anticipation Notes Payable		-	27,000,000					27,000,000
Bond Indebtedness				5,505,000		68,182,382		73,687,382
Accounts Payable					(520)			(520)
Tailings	214,328			830				215,158
								-
Total Liabilities	1,472,872	2,720,615	27,000,000	8,215,314	1,018,945	69,107,155		109,534,901
Fund Equity								
Fund Equity								-
Reserve for Encumbrances	6,316,022							6,316,022
Reserve for Under/Over Estimates								-
Reserve for Court Judgments								-
Petty Cash				500				500
Unreserved	3,221,484	4,600,778	-					7,822,261
Designated For Subsequent Years'	2,592,000	6,827,186	13,970,371	8,375,920	11,053,400			42,818,877
Investment in Fixed Assets								-
Bonds Authorized	3,810,000							3,810,000
Bonds Authorized & Unissued	(3,810,000)							(3,810,000)
								-
								-
Total Fund Equity	12,129,505	11,427,963	13,970,371	8,376,420	11,053,400	-	-	56,957,660
Total Liabilities and Fund Equity	\$ 13,602,378	\$ 14,148,578	\$ 40,970,371	\$ 16,591,734	\$ 12,072,345	\$ 69,107,155	\$ -	\$ 166,492,560

(1) Extracted from the unaudited financial statements of the Town.

TOWN OF SHREWSBURY, MASSACHUSETTS (1)
BALANCE SHEET – GOVERNMENTAL FUNDS
JUNE 30, 2003

	General Fund	Stabilization Fund	Senior High School Construction Fund	Middle School Renovation Fund	Allen Farm Property Acquisition Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 320,990	\$ -	\$ (530,147)	\$ (1,605,567)	\$ -	\$ 8,049,582	\$ 6,234,858
Investments	15,282,184	879,117	3,995,800	14,051,190		3,522,780	37,731,071
Accrued Interest	52,489						52,489
Receivables, net of allowance for uncollectibles:							-
Property Taxes	265,083						265,083
Deferred Property Taxes	31,578						31,578
Taxes in Litigation	2,384						2,384
Tax Liens	167,360						167,360
Excise Taxes	324,774						324,774
Departmental	1,440					560	2,000
User Charges	276,676	-					276,676
Special Assessments	253,072	-				115,002	368,074
Due from Governments	41,451,301	-				1,004,555	42,455,856
Total Assets	<u>\$ 58,429,331</u>	<u>\$ 879,117</u>	<u>\$ 3,465,653</u>	<u>\$ 12,445,623</u>	<u>\$ -</u>	<u>\$ 12,692,479</u>	<u>\$ 87,912,203</u>
LIABILITIES AND FUND EQUITY:							
Liabilities:							-
Warrants Payable	\$ 784,159	\$ -	\$ -	\$ 2,858	\$ -	\$ 14,696	\$ (10,452)
Accrued Payroll	2,155,288			1,570		138,252	2,295,110
Employee Withholdings	992,082						992,082
Tax Refund Payable	141,550						141,550
Accred Interest on Short-Term Debt	350,868						350,868
Deferred Revenue:							-
Property Taxes	107,073						107,073
Other	42,508,585					763,220	43,271,805
Notes Payable				15,670,000	6,000,000	1,949,131	-
Total Liabilities	<u>47,039,605</u>	<u>-</u>	<u>-</u>	<u>15,674,428</u>	<u>6,000,000</u>	<u>2,865,299</u>	<u>71,579,332</u>
Fund Equity							-
Reserved for:							-
Encumbrances and continuing appropriations	3,817,281						3,817,281
Unreserved							-
Designated for subsequent year's expenditures	3,362,416	185,000				1,654,831	5,202,247
Undesignated, reported in:							-
General Fund	4,210,029						4,210,029
Special Revenue	-	694,117				6,732,035	7,426,152
Capital Projects			3,465,653	(3,228,805)	(6,000,000)	(368,896)	(6,132,048)
Permanent Funds						1,809,210	1,809,210
Total Fund Equity	<u>11,389,726</u>	<u>879,117</u>	<u>3,465,653</u>	<u>(3,228,805)</u>	<u>(6,000,000)</u>	<u>9,827,180</u>	<u>16,332,871</u>
Total Liabilities and Fund Equity	<u>\$ 58,429,331</u>	<u>\$ 879,117</u>	<u>\$ 3,465,653</u>	<u>\$ 12,445,623</u>	<u>\$ -</u>	<u>\$ 12,692,479</u>	<u>\$ 87,912,203</u>

(1) Extracted from the unaudited financial statements of the Town.

TOWN OF SHREWSBURY, MASSACHUSETTS (1)
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2002

	Governmental Fund Types			Proprietary	Fiduciary	General	Account Group	Total
	General	Special Revenue	Capital Projects	Fund Type Enterprise	Fund Type Trust & Agency		General Long- Term Debt	Memorandum Only
Assets								
Cash and Cash Equivalents	\$ 17,272,454	\$ -	\$ 1,630,000	\$ -	\$ 29,864	\$ -	\$ -	\$ 18,932,318
Investments	5,431,701	8,638,302	25,079,775	-	3,119,898	-	-	42,269,676
Receivables:	-	-	-	-	-	-	-	-
Property Taxes	306,759	-	-	-	-	-	-	306,759
Deferred Property Taxes	27,608	-	-	-	-	-	-	27,608
Taxes in Litigation	1,785	-	-	-	-	-	-	1,785
Excise Taxes	496,525	-	-	-	-	-	-	496,525
Tax Liens	131,764	-	-	-	-	-	-	131,764
Departmental	2,826	1,232	-	-	-	-	-	4,058
User Charges	244,025	144,558	-	2,039,896	-	-	-	2,428,479
Special Assessments	81,795	408,425	-	-	-	-	-	490,220
Special Assessments Note Yet Due	213,160	1,224,532	-	-	-	-	-	1,437,692
Less: Allowance for Uncollectible Accounts	(112,199)	-	-	-	-	-	-	(112,199)
Due From Other Funds	-	12,131,101	-	8,207,289	203,393	-	-	20,541,783
Due From Other Governments	-	727,236	-	-	-	-	-	727,236
Tax Foreclosures	184,179	-	-	-	-	-	-	184,179
Fixed Assets	-	-	-	-	-	164,521,100	-	164,521,100
Amount to be Provided for the Payments of Notes/Debt	-	111,131	599,000	6,755,000	-	-	73,983,304	81,448,435
Amount to be Provided for Payment of Comp. Absences	-	-	-	-	-	-	800,551	800,551
Total Assets	\$ 24,282,382	\$ 23,386,517	\$ 27,308,775	\$ 17,002,185	\$ 3,353,155	\$ 164,521,100	\$ 74,783,855	\$ 334,637,969
Liabilities and Fund Equity								
Liabilities:								
Warrants Payable	\$ 2,284,845	\$ 183,273	\$ 19,372	\$ 215,536	\$ 3,912	\$ -	\$ -	\$ 2,706,938
Employee Withholdings	666,873	-	-	-	-	-	-	666,873
Taxes Collected in Advance	28,983	36	-	-	-	-	-	29,019
Due to Other Funds	6,898,941	-	13,643,507	-	-	-	-	20,542,448
Due to Student Groups	-	-	-	-	146,098	-	-	146,098
Deferred Revenue:	-	-	-	-	-	-	-	-
Property Taxes	62,388	-	-	-	-	-	-	62,388
Other	1,383,667	2,348,238	-	2,039,896	-	-	-	5,771,801
Compensated Absences	-	-	-	-	-	-	800,551	800,551
Notes Payable	-	111,131	599,000	-	-	-	-	710,131
Bond Indebtedness	-	-	-	6,755,000	-	-	73,983,304	80,738,304
Total Liabilities	11,325,697	2,642,678	14,261,879	9,010,432	150,010	-	74,783,855	112,174,551
Fund Equity:								
Investment in General Fixed Assets	-	-	-	-	-	164,521,100	-	164,521,100
Retained Earnings:	-	-	-	-	-	-	-	-
Reserved	-	-	-	1,462,209	-	-	-	1,462,209
Unreserved	-	-	-	6,529,544	-	-	-	6,529,544
Fund Balances:	-	-	-	-	-	-	-	-
Reserved for Encumbrances	2,790,962	1,280,686	12,773,346	-	-	-	-	16,844,994
Reserved for Over (Under) Estimates	(21,208)	-	-	-	-	-	-	(21,208)
Reserved for Deficits	-	-	-	-	-	-	-	-
Reserved for Appellate Tax Court Cases	-	-	-	-	-	-	-	-
Unreserved:	-	-	-	-	-	-	-	-
Designated for Subsequent Years' Expenditures	1,905,000	2,169,831	200,000	-	-	-	-	4,274,831
Designated for Continuing Appropriations	558,722	-	73,550	-	-	-	-	632,272
Undesignated	7,723,209	17,293,322	-	-	3,203,145	-	-	28,219,676
Total Fund Equity	12,956,685	20,743,839	13,046,896	7,991,753	3,203,145	164,521,100	-	222,463,418
Total Liabilities and Fund Equity	\$ 24,282,382	\$ 23,386,517	\$ 27,308,775	\$ 17,002,185	\$ 3,353,155	\$ 164,521,100	\$ 74,783,855	\$ 334,637,969

(1) Extracted from the audited financial statements of the Town.

TOWN OF SHREWSBURY, MASSACHUSETTS (1)
COMBINED BALANCE SHEET – ALL FUND TYPES AND ACCOUNT GROUP
JUNE 30, 2001

	General Fund	Special Revenues	Capital Project	Enterprise	Trust & Agency	Long Term Debt	Fixed Assets	Total
Asset								
Cash	\$ (23,912,980)	\$ 10,955,984	\$ 19,600,534	\$ 6,265,648	\$ 8,261,246	\$ -	\$ -	\$ 21,170,432
Investments	32,839,287	-	-	-	-	-	-	32,839,287
Account Receivable :								
Retirement Receivable	-	-	-	-	900	-	-	900
Property Taxes	231,277	-	-	-	-	-	-	231,277
Excise Taxes	387,930	-	-	-	-	-	-	387,930
Tax Liens	94,558	-	-	-	-	-	-	94,558
Deferred Property Taxes	22,529	-	-	-	-	-	-	22,529
Taxes in Litigation	1,785	-	-	-	-	-	-	1,785
Departmental	2,394	-	-	-	-	-	-	2,394
User Charges	93,553	55,872	-	2,224,069	-	-	-	2,373,494
Special Assessments	416,527	55,200	-	-	-	-	-	471,727
Special Assessments Not Due	120,934	631,544	-	-	-	-	-	752,478
Less: Allowance for Uncollectable	(131,335)	-	-	-	-	-	-	(131,335)
Due from Governments	-	657,103	-	-	-	-	-	657,103
Tax Foreclosures	226,102	-	-	-	-	-	-	226,102
Land and Buildings	-	-	-	-	-	-	124,705,400	124,705,400
Amounts To Be Provided for:								
Compensated Absences	-	-	-	-	-	772,707	-	772,707
Payment of BANS	2,000,000	100,000	45,000,000	-	-	-	-	47,100,000
Payment of Bonds	-	-	-	5,655,000	-	15,300,000	-	20,955,000
Total Assets	\$ 12,392,561	\$ 12,455,703	\$ 64,600,534	\$ 14,144,717	\$ 8,262,146	\$ 16,072,707	\$ 124,705,400	\$ 252,633,768
Liabilities								
Employee Withholdings	\$ -	\$ -	\$ -	\$ -	\$ 342,442	\$ -	\$ -	\$ 342,442
Deferred Revenue:								
Property Taxes	99,942	-	-	-	-	-	-	99,942
Due from State	-	757,103	-	-	-	-	-	757,103
Other	1,245,378	58,891	-	2,224,069	-	-	-	3,528,337
Special Assessments Not Due	120,934	683,725	-	-	-	-	-	804,659
Prepaid Utility Billing	1,566	4,107	-	-	-	-	-	5,673
Compensated Absences	-	-	-	-	-	772,707	-	772,707
Grant Anticipation Notes Payable	-	100,000	-	-	-	-	-	100,000
Bond Anticipation Notes Payable	2,000,000	-	45,000,000	-	-	-	-	47,000,000
Bond Indebtedness	-	-	-	5,655,000	-	15,300,000	-	20,955,000
Accounts Payable	3,049	-	-	-	-	-	-	3,049
Tailings	120,749	-	-	830	-	-	-	121,579
Total Liabilities	3,591,619	1,603,826	45,000,000	7,879,898	342,442	16,072,707	-	74,490,492
Fund Equity								
Reserve for Encumbrances	3,477,860	-	-	-	-	-	-	3,477,860
Reserve for Under/Over Estimates	(18,274)	-	-	-	-	-	-	(18,274)
Reserve for Court Judgments	126,964	-	-	-	-	-	-	126,964
Petty Cash	-	-	-	500	-	-	-	500
Unreserved	4,334,392	3,731,239	-	-	-	-	-	8,065,631
Designated For Subsequent Years'	880,000	7,220,638	19,600,534	6,264,319	7,919,703	-	-	41,885,194
Investment in Fixed Assets	-	-	-	-	-	-	124,705,400	124,705,400
Bonds Authorized	-	(200,000)	-	-	-	-	-	(200,000)
Bonds Authorized & Unissued	-	100,000	-	-	-	-	-	100,000
Total Fund Equity	8,800,942	10,851,877	19,600,534	6,264,819	7,919,703	-	124,705,400	178,143,275
Total Liabilities and Fund Equity	\$ 12,392,561	\$ 12,455,703	\$ 64,600,534	\$ 14,144,717	\$ 8,262,146	\$ 16,072,707	\$ 124,705,400	\$ 252,633,768

(1) Unaudited, extracted from the Town Accountant's financial report.

TOWN OF SHREWSBURY, MASSACHUSETTS (1)
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE – GENERAL FUND

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003
Revenues					
Taxes	\$ 26,971,234	\$ 28,415,451	\$ 32,164,408	\$ 36,128,891	\$ 36,805,040
State Receipts	8,877,104	9,801,614	10,769,794	11,763,692	12,401,546
Excise and Other Taxes	3,347,316	3,822,951	3,995,295	4,196,849	4,520,176
License, Permits, Fees	5,623,658	4,549,644	4,972,923	6,952,786	5,583,600
Interest and Penalties on Delinquent Taxes	218,456	171,494	178,013	139,864	168,798
Investment Income:					
Interest	1,605,034	1,720,803	1,752,893	1,040,645	1,561,045
Net increase (decrease) in Fair Market Value of Investments(2)	(522,105)	(620,197)	1,254,539	643,897	(678,235)
Other			-	3,279,628	3,583,966
Total Revenues	<u>46,120,697</u>	<u>47,861,760</u>	<u>55,087,865</u>	<u>64,146,252</u>	<u>63,945,936</u>
Expenditures					
General Government	3,488,520	3,955,786	4,598,642	4,287,798	4,590,210
Protection of Persons	4,236,164	4,839,002	5,141,954	5,360,337	5,378,482
Health and Human Services	1,210,387	1,544,983	1,634,029	1,701,350	1,696,978
Public Works	2,844,727	3,675,091	3,583,533	3,037,399	3,811,365
Library and Recreation	1,406,779	1,387,341	1,481,925	1,426,401	1,565,195
Education	23,898,991	25,801,852	27,793,961	30,129,010	32,233,657
Employee Benefits	3,622,875	3,739,226	7,709,049	7,949,534	9,593,877
State Assessments	189,745	194,276	194,688	197,981	191,478
Debt and Interest	1,723,483	2,256,320	2,881,047	5,346,634	6,883,767
Continuing Appropriations	1,861,249	2,057,300	2,460,166	1,399,690	
Total Expenditures	<u>44,482,920</u>	<u>49,451,177</u>	<u>57,478,994</u>	<u>60,836,134</u>	<u>65,945,009</u>
Excess of Revenue Over (under) Expenditures	<u>1,637,777</u>	<u>(1,589,417)</u>	<u>759,910</u>	<u>3,310,118</u>	<u>(1,999,073)</u>
Other Financing Sources (Uses):					
Transfers from (to) Other Funds	577,988	940,093	1,514,384	2,267,570	1,795,161
Transfers Out	(1,852,391)	(1,483,670)	(177,510)	(1,896,532)	(1,276,046)
Total Other Financing Sources	<u>(1,274,403)</u>	<u>(543,577)</u>	<u>1,336,874</u>	<u>371,038</u>	<u>519,115</u>
Excess of Revenues and Other Sources Over (Under Expenditures and Other Uses	<u>363,374</u>	<u>(2,132,994)</u>	<u>496,784</u>	<u>3,681,156</u>	<u>(1,479,958)</u>
Fund Balance, Beginning	<u>10,548,365</u>	<u>10,911,739</u>	<u>8,778,745</u>	<u>9,275,529</u>	<u>12,869,684</u> (3)
Fund Balance, Ending	<u>\$ 10,911,739</u>	<u>\$ 8,778,745</u>	<u>\$ 9,275,529</u>	<u>\$ 12,956,685</u>	<u>\$ 11,389,726</u>

(1) Extracted from the audited financial statements of the Town.

(2) GASB requires that investments be shown at fair market value effective with Fiscal 98 financial statements.

Investments were previously reported at the lower of cost value or market value.

(3) Restated

Free Cash

Under Massachusetts law an amount known as "free cash" is certified as of the beginning of each fiscal year by the State Bureau of Accounts and this, together with certain subsequent tax receipts, is used as the basis for subsequent appropriations from available funds, which are not required to be included in the annual tax levy. Subject to certain adjustments, free cash is undesignated fund balance less uncollected and overdue property taxes from prior years.

The following table sets forth the trend in undesignated fund balance as extracted from the Town's annual audits and free cash as certified by the Bureau of Accounts.

Fiscal Year	Undesignated Fund Balance (June 30)	Certified Free Cash (July 1)
2004	\$ 3,221,483	\$ 2,837,137
2003	3,972,920	3,616,392
2002	7,723,209	6,958,805
2001	4,334,392	4,087,506
2000	2,738,821	2,884,606

Stabilization Fund

In Fiscal 2000 the Town instituted a Stabilization Fund which is funded by town meeting appropriations and can only be spent with Town Meeting approval. The fund is intended to be used for one time capital expenditures. The balance in the stabilization fund is currently \$955,370.

Other Available Funds

Available funds certified by the State Department of Revenue as of June 30, 2004 in the Cable Enterprise Fund was \$852,732 and in the Light Enterprise fund was \$7,523,688.

Tax Increment Financing for Development Districts

Under recent legislation, cities and towns are authorized to establish development districts to encourage increased residential, industrial and commercial activity. All or a portion of the taxes on growth in assessed value in such districts may be pledged and used solely to finance economic development projects pursuant to the city or town's development program for the district. This includes pledging such "tax increments" for the payment of bonds issued to finance such projects. As result of any such pledge, tax increments raised from new growth properties in development districts are not available for other municipal purposes. Tax increments are taken into account in determining the total taxes assessed for the purpose of calculating the maximum permitted tax levy under Proposition 2 ½ (see "Property Tax Limitation" under "PROPERTY TAXATION" above.)

Investment of Town Funds

All funds of the Town, except for trust funds and funds of the Retirement System, are invested in accordance with Section 55 of Chapter 44, of the Massachusetts General Laws (MGL). This statute permits investments of available revenue funds and bond and note proceeds in term deposits and certificates of deposits of banks and trust companies, in obligations unconditionally guaranteed by the federal government or an agency thereof with a maturity of not more than one year, in repurchase agreements with a maturity of not more than 90 days secured by federal or federal agency securities, in participation unites in the Massachusetts Municipal Depository Trust ("MMDT"), or in share in SEC-registered money market funds with the highest possible rating from at least one nationally recognized rating organization.

MMDT is an investment pool created by the Commonwealth under the supervision of the State Treasurer's office. According to the State Treasurer the MMDT's investment policy is designed to maintain an average weighted maturity of 90 days or less and is limited to high-quality, readily marketable fixed income instruments, including U.S. government obligations and highly-rated corporate securities with maturities of one year or less.

Trust funds, unless otherwise provided by the donor, are invested in accordance with Section 54 of Chapter 44, which permits a broader range of investments than Section 55, including any bonds or notes that re legal investments for savings banks in the Commonwealth. Breakdown of such investments may be obtained from the Town Treasurer. The restrictions imposed by Sections 54 and 55 do not apply to city and town retirement systems.

INDEBTEDNESS

Authorization Procedure and Limitations

Serial bonds and notes are authorized on behalf of the Town by vote of two-thirds of all the town meeting members present or voting at an annual or special town meeting. Provision is made for a referendum on the borrowing authorization if there is a timely filing of a petition bearing the requisite number of signatures. Borrowings for certain purposes require state administrative approval. Temporary loans in anticipation of the revenues of the fiscal year in which debt is incurred, or in anticipation of state and federal grants generally can be incurred without town meeting authorization.

The general debt limit of the Town of Shrewsbury consists of a normal debt limit and a double debt limit. The normal debt limit is 5 per cent of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of a state board consisting of the attorney general, the state treasurer, the state auditor and the director of accounts.

There are many categories of general obligation debt which are exempt from and do not count against the general debt limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10 per cent of equalized valuation), housing, urban renewal, and economic development (subject to various debt limits), and electric, gas, community antenna television systems and telecommunications systems (subject to a separate limit equal to the general debt limit, including the same doubling provision). Revenue bonds are not subject to these debt limits. The general debt limit and the special debt limit for water bonds apply at the time debt is authorized. The other special debt limits generally apply at the time the debt is incurred.

Types of Obligations

General Obligations. Massachusetts cities and towns are authorized to issue general obligation indebtedness of these types:

Serial Bonds and Notes. These are generally required to be payable in equal or diminishing annual principal amounts beginning no later than the end of the next fiscal year commencing after the date of issue and ending within the terms permitted by law. Level debt service is permitted for bonds and notes issued for certain purposes including self supporting enterprise purposes, certain state-aided school projects and certain community preservation and open space projects, as well as for projects for which debt service has been exempted from property tax limitations. The principal amounts of certain economic development bonds supported by tax increment financing may be payable in equal diminishing or increasing amounts beginning within 5 years after the date of issue. The maximum terms of serial bonds and notes vary from one year to 40 years, depending on the purpose of the issue. Most of the purposes are capital projects. Bonds or notes may be made callable and redeemed prior to their maturity, and a redemption premium may be paid. Refunding bonds or notes may be issued subject to the maximum term measured from the date of the original bonds or notes.

Serial bonds may be issued as "qualified bonds" with the approval of a board consisting of the attorney general, the state treasurer, the state auditor, and the director of accounts, subject to such conditions and limitations (including restrictions on future indebtedness) as may be required by the board. Qualified bonds may mature not less than 10 nor more than 30 years from their dates and are not subject to the amortization requirements described above. The State Treasurer is required to pay the debt service on qualified bonds and thereafter to withhold the amount of the debt service from state aid or other state payments. Administrative costs and any loss of interest income to the State are to be assessed upon the city or town.

Bond Anticipation Notes. These generally must mature within two years of their original dates of issuance but may be refunded from time to time for a period not to exceed five years from their original dates of issuance, provided that for each year that the notes are refunded beyond the second year they must be paid in part from revenue funds in an amount at least equal to the minimum annual payment that would have been required if the bonds had been issued at the end of the second year. For certain school projects, however, notes may be refunded from time to time for a period not to exceed seven years without having to pay any portion of the principal of the notes from revenue funds. The maximum term of bonds issued to refund bond anticipation notes (except for certain school projects) is measured from the date of the original issue of the notes.

Revenue Anticipation Notes. The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawfully unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. (See "Taxation to Meet Deficits" under "PROPERTY TAX" above.) In any event, the period from an original borrowing to its final maturity cannot exceed one year.

The Town of Shrewsbury has not issued revenue anticipation notes in the last five fiscal years.

Grant Anticipation Notes. These are issued for temporary financing in anticipation of federal grants and state and county reimbursements. Generally they must mature within two years but may be refunded from time to time as long as the municipality remains entitled to the grant or reimbursement.

Revenue Bonds. Cities and towns may issue revenue bonds for solid waste disposal facilities, for projects financed under the Commonwealth Water Pollution Abatement Revolving Loan or Drinking Water Revolving Loan Programs and for certain economic development projects supported by tax increment financing. In addition to general obligation bonds and notes, cities and towns having electric departments may issue revenue bonds, and notes in anticipation of such bonds, subject to the approval of the State Department of Public Utilities. The Town's electric department does not have any revenue bonds or notes outstanding.

DIRECT DEBT SUMMARY
As of June 30, 2004 (1)

General Obligation Bonds Outstanding	
School (2)	\$63,160,000
General (3)	3,995,000
Electric (4)	1,540,000
Cable (4)	3,525,000
Other Building	940,000
MWPAT (5)	359,066
Total Direct Debt	<u><u>\$73,519,066</u></u>

(1) Principal amount only. Excludes lease and installment purchase obligations, overlapping debt and unfunded pension liability.

(2) Does not reflect the reimbursement received from the State of Massachusetts for school building assistance. \$62,560,000 is exempt from the limits of Proposition 2 ½.

(3) The Town has voted to exempted \$3,995,000 from the limits of Proposition 2 ½.

(4) Outside the Town's debt limit.

(5) Does not reflect the subsidy from MWPAT. \$72,454 is exempt from the limits of Proposition 2 ½ and is outside the Town's debt limit.

Debt Ratios

The following table sets forth the ratio of debt to equalized valuation and per capita debt ratios at the end of the five most recent fiscal years. The table considers the principal amount of general obligation bonds of the Town of Shrewsbury only. The table does not deduct anticipated state grant payments applicable to the principal amount of outstanding bonds or debt that may be supported in whole, or part, by non-tax revenues.

Fiscal Year End	General Obligation Bonds Outstanding	Equalized Valuation(1)	Per Capita Debt(2)	Debt as a % of Full Valuation
2004	\$73,519,066	\$3,257,882,400	\$2,323.61	2.3 %
2003	78,247,131	3,257,882,400	2,473.04	2.4
2002	80,738,304	2,388,870,700	2,551.78	3.4
2001	20,241,947	2,388,870,700	639.76	0.8
2000	22,930,000	1,994,689,800	724.72	1.1

(1) 1998 state equalized valuation used for fiscal year 2000. 2000 equalized valuation used for fiscal years 2001 and 2002. 2002 equalized valuation used for fiscal years 2003 and 2004.

(2) Based on 2000 U.S. Census population of 31,640.

Principal Payments by Purpose

The following table sets forth the principal payments by purpose for the outstanding debt of the Town of Shrewsbury, as of June 30, 2004.

GENERAL OBLIGATION BONDS PRINCIPAL PAYMENTS BY PURPOSE As of June 30, 2004

Fiscal Year	School	General	Electric	Cable	Other Building	MWPAT	Total Outstanding
2005	\$3,805,000	\$270,000	\$110,000	\$355,000	\$170,000	\$18,234	\$4,728,234
2006	3,700,000	270,000	110,000	355,000	170,000	18,453	4,623,453
2007	3,695,000	265,000	110,000	355,000	175,000	18,711	4,618,711
2008	3,695,000	265,000	110,000	355,000	175,000	18,974	4,618,974
2009	3,695,000	265,000	110,000	355,000	175,000	19,335	4,619,335
2010	3,695,000	265,000	110,000	350,000	75,000	19,799	4,514,799
2011	3,695,000	265,000	110,000	350,000		20,255	4,440,255
2012	3,695,000	265,000	110,000	350,000		20,923	4,440,923
2013	3,670,000	265,000	110,000	350,000		20,923	4,415,923
2014	3,670,000	265,000	110,000	350,000		20,923	4,415,923
2015	3,670,000	265,000	110,000			24,139	4,069,139
2016	3,670,000	265,000	110,000			24,139	4,069,139
2017	3,195,000	265,000	110,000			24,139	3,594,139
2018	3,195,000	265,000	110,000			24,139	3,594,139
2019	3,195,000	165,000				24,139	3,384,139
2020	3,075,000	110,000				19,310	3,204,310
2021	3,075,000					22,529	3,097,529
2022	3,070,000						3,070,000
	<u>\$63,160,000</u>	<u>\$3,995,000</u>	<u>\$1,540,000</u>	<u>\$3,525,000</u>	<u>\$940,000</u>	<u>\$359,066</u>	<u>\$73,519,066</u>

Debt Service Requirements

The following table sets forth the required principal and interest payments on the outstanding general obligation bonds of the Town of Shrewsbury.

TOWN OF SHREWSBURY, MASSACHUSETTS DEBT SERVICE REQUIREMENTS AS OF JUNE 30, 2004

Fiscal Year	Currently Outstanding		SBAB Subsidy	MWPAT Subsidy	This Issue		Total Net Debt Service
	Principal	Interest			Principal	Interest	
2005	\$ 4,728,234	\$ 3,471,187	(\$3,702,732)	\$ (16,259)	\$ -	\$ -	\$ 4,480,430
2006	4,623,453	3,257,640	(3,702,732)	(15,756)	455,000	479,056	5,096,661
2007	4,618,711	3,046,192	(3,702,732)	(15,223)	455,000	300,791	4,702,740
2008	4,618,974	2,856,331	(3,702,732)	(14,660)	455,000	287,426	4,500,338
2009	4,619,335	2,648,696	(3,702,732)	(14,109)	455,000	274,344	4,280,535
2010	4,514,799	2,423,084	(3,702,732)	(13,547)	455,000	260,694	3,937,298
2011	4,440,255	2,200,950	(3,702,732)	(12,953)	455,000	246,191	3,626,712
2012	4,440,923	1,981,619	(3,702,732)	(12,348)	455,000	230,835	3,393,297
2013	4,415,923	1,765,488	(3,702,732)	(16,127)	455,000	214,626	3,132,178
2014	4,415,923	1,541,744	(3,702,732)	(11,355)	455,000	197,848	2,896,427
2015	4,069,139	1,321,839	(3,702,732)	(10,735)	455,000	180,501	2,313,012
2016	4,069,139	1,118,328	(3,702,732)	(10,041)	450,000	162,685	2,087,380
2017	3,594,139	914,817	(3,702,732)	(9,346)	450,000	144,685	1,391,563
2018	3,594,139	735,058	(3,702,732)	(8,654)	450,000	126,685	1,194,496
2019	3,384,139	558,053	(3,206,732)	(7,966)	450,000	108,685	1,286,180
2020	3,204,310	388,967	(3,206,732)	(7,398)	450,000	90,404	919,551
2021	3,097,529	231,501	(3,206,732)	(6,951)	370,000	73,260	558,607
2022	3,070,000	76,750	(3,206,732)		370,000	57,443	367,461
2023			(3,206,732)		370,000	41,394	(2,795,338)
2024					370,000	24,975	394,975
2025					370,000	8,325	378,325
	<u>\$73,519,066</u>	<u>\$30,538,244</u>	<u>(\$67,871,907)</u>	<u>(\$203,428)</u>	<u>\$ 8,650,000</u>	<u>\$ 3,510,851</u>	<u>\$48,142,827</u>

Authorized Unissued Debt and Prospective Financing

After delivery of the Bonds, the Town will have \$21,580,000 authorized unissued debt consisting of \$6,100,000 for land acquisition, \$200,000 for Title V Community Septic Loans and \$1,000,000 for land acquisition which is expected to be rescinded. Pertaining to the \$6,100,000 land acquisition bonds, the town obtained special legislation to establish a separate development corporation whose purpose will be to seek commercial development opportunities for the property being acquired. The \$14,280,000 balance represents the estimated state share of the school renovation project.

Overlapping Debt

The Town is a member of the Worcester Regional Transit Authority that has no outstanding long-term debt. For the fiscal year ended June 30, 2004, the Town was assessed \$82,522 for its share of the operating costs of the authority.

In addition, as a contiguous Town of the MBTA, the Town is assessed \$91,481 for its share of those operating cost.

Contractual Obligations

Municipal contracts are generally limited to currently available appropriations. A city or town generally has authority to enter into contracts for the exercise of any of its corporate powers for any period of time deemed to serve its best interest, but generally only when funds are available for the first fiscal year; obligations for succeeding years generally are expressly subject to availability and appropriation of funds. Specific authority remains in relatively few cases for long-term contractual obligations that are not subject to annual appropriation, including contracts for refuse disposal and sewage treatment and disposal. Municipalities may also enter into long-term contracts in aid of housing and renewal projects. There may be implied authority to make other long-term contracts required to carry out authorized municipal functions, such as contracts to purchase water from private water companies.

Municipal electric departments have statutory power to enter into long-term contracts for joint ownership and operation of generating and transmission facilities and for the purchase or sale of capacity, including contracts requiring payments without regard to the operational status of the facilities. See "Note 4-C in the Financial Statements presented in Appendix A" attached hereto for contractual agreements pertaining to the Town's electric light department and its participation in MMWEC.

Pursuant to the Home Rule Amendment to the Massachusetts Constitution, cities and towns may also be empowered to make other contracts and leases.

The Town of Shrewsbury has the following significant contractual obligations.

A twenty year contract for the disposal of trash with Wheelabrator Millbury, Inc. through December 31, 2007 based upon tonnage calculated by using a set formula with annual escalators tied to ½ of the consumer price index. The fiscal 2004 cost for this contract was approximately \$446,000.

A five year contract with Pelligrino Trucking for refuse collection, recyclables and yard waste at residential and municipal properties through June 30, 2004. The contract amount for refuse collection for fiscal year 2004 was \$758,500.

A three year contract with BR Cleaning Services, for cleaning services at the Municipal Office Building and the police station through June 30, 2006. The contract amount for fiscal year 2004 was \$42,800.

A three year contract for cleaning services at the middle and Floral St schools through June 30, 2006. The contract amount for fiscal year 2004 was \$165,000.

A three year contract with National Cleaning, Inc. for cleaning services at the high school through June 30, 2005. The contract amount for fiscal year 2004 is \$103,670.

A three year contract for school bus transportation for transporting students to and from Assabet Valley Regional Vocation School District and the Town's local school late bus with Laidlaw Transit through June 30, 2005 with the daily rate based upon the type of vehicle needed. The contract amount for fiscal year 2005 is \$59,000.

The Special Education out of district transportation is contracted via the Assabet Valley Collaborative. The fiscal 2005 cost is \$425,000.

A three year contract for regular day school bus transportation with Laidlaw Transit, Inc. through June 30, 2005. The contract amount for fiscal year 2005 is \$1,700,000. Additional bus contracts to provide winter busses costing \$34,000 and athletic transportation costing \$65,000 expire on June 30, 2005.

A three year contract for ambulance service with UMass/Memorial Health Care. The fiscal 2005 cost is \$64,800.

The Town is obligated under the following contract with another municipal governmental unit.

An inter-municipal agreement dated September 11, 1979 for a period of twenty-five years with the Town of Westborough whereby the Town of Shrewsbury's wastewater is treated at the Town of Westborough's wastewater treatment facility. Debt service and operation and maintenance costs to be determined by the Sewer Treatment Board apportioned on the basis of each member's flow. Debt service will be paid annually while the operation costs will be paid semi-annually. In fiscal 2005 the Town's share of total costs is \$1,490,935.

RETIREMENT PLAN

The Town has a contributory retirement system that is partially funded by employee contributions including the Municipal Light Department. There are 251 retired persons and surviving beneficiaries currently receiving pensions under the contributory plan. The Town's method of funding for the contributory plan is a combination of required pay-as-you-go contributions determined by the Division of Insurance of the Commonwealth and optional funding of certain past service costs based on an actuarial valuation prepared for the Massachusetts Retirement Law Commission. The pay-as-you-go amounts are legal obligations of the municipality and are required to be included in its annual tax levy. The retirement system covers substantially all municipal employees except school teachers, whose pensions are paid by the Commonwealth. The annual required contributions for the last five fiscal years were as follows:

<u>Year Ending</u>	<u>Contribution</u>
June 30, 2004	\$1,316,188
June 30, 2003	1,274,518
June 30, 2002	1,240,656
June 30, 2001	1,628,742
June 30, 2000	1,559,742

The unfunded actuarial liability applicable to employees on January 1, 2004 was approximately \$14,419,434. The total pension benefit obligation of the contributory retirement system as of January 1, 2004 was approximately \$65,276,552.

The foregoing data do not include the retirement system costs or liabilities of any larger entity, such as the county, of which the municipality is a constituent part and for which the municipality is assessed a share of expenses.

In 1983 legislation was enacted establishing the Pension Reserves Investment Trust (PRIT") Fund to receive and manage funds to offset future pension costs of state and local systems to the extent of their participation in the assets of the PRIT Fund. To induce systems to participate, the law provides that annual appropriations by the Commonwealth for unfunded pension liabilities will be deposited in the PRIT Fund and shared by all participating systems in proportion to their interests in the assets of the PRIT Fund. The law calls for annual State appropriations amounting to at least 1.3% of State payroll. In 1992 the Town withdrew from the PRIT Fund and hired consultants to assist them with determining an 18 year funding schedule.

Chapter 697 of the Acts of 1987, which was enacted on January 12, 1988, provides for the funding of the Commonwealth's current unfunded pension liability over a period not greater than 40 years. In addition, Chapter 697 contains significant financial incentives for each local governmental unit to establish its own state-approved funding schedule to eliminate its unfunded actuarial liability by June 30, 2028. Annual pension funding grants are to be provided for the first fifteen years of an approved funding schedule, beginning with the fiscal year ending June 30, 1990; the grants would be funded from designated percentages of increases in state revenues. The funding provisions for local systems are subject to local acceptance. **The Town has voted to accept the provisions of Chapter 32, Section 22 (6A) (b), regarding acceptance of a funding schedule. Payments under such schedule began in fiscal 1994 and are required to fund each year the actuarially determined cost plus an amount to amortize the unfunded liability by June 20, 2011.**

Under recent legislation, cities and towns that accept its provisions and that obtain certain state approvals therefor may, within limits, reduce the amount of their scheduled appropriations for fiscal year 2004 and fiscal year 2005 for the unfunded portion of their pension liability to offset recent reductions in state aid. Cities and towns that reduce such appropriations are required to revise their funding schedule for eliminating their unfounded pension liability and may extend such schedule by one year, provided that in no event may such funding schedule extend beyond June 30, 2028.

Cost of living adjustments (COLA) for the Town Retirement System would be granted and funded by the Retirement System. Those statutory provisions have been accepted by the Retirement Board with the approval of the Town Meeting, which acceptance may not be revoked.

EMPLOYEE RELATIONS

The Town presently employs approximately 1,432 full-time and part-time workers, 900 of whom are employed by the school department, 43 by the public works department, 38 by the fire department, 61 by the police department, 65 by the Electric/CATV department and the balance of persons by various departments of the Town. Town employees (other than managerial and confidential employees) are entitled to join unions and to bargain collectively on questions of wages, hours and other terms and conditions of employment. Provisions for compulsory arbitration of labor disputes involving fire fighters and police officers were repealed by the Proposition 2 1/2 legislation.

<u>Title of Union Contract</u>	<u>Department</u>	<u>No. of Union Members</u>	<u>Contract Expiration Date(1)</u>
International Brotherhood of Police Officers, Local 426	Police	34	6/30/04
International Brotherhood of Police Officers, Local 543	Police Superior Officers	7	6/30/07
Teamsters Local 170, Dispatchers	Police	7	6/30/07
Firefighter's Association NAGE, Local R1-223	Fire	36	6/30/04
American Federation of State, County and Municipal Employees AFL-CIO, State Council 93, Local 1708	Public Buildings	29	6/30/07
National Association of Government Employees, Local R1-223	Public Works	24	6/30/04
International Brotherhood of Electrical Workers	Electric/Cable	23	06/30/07
Shrewsbury Education Association	Teachers	450	8/24/06
Shrewsbury Employees International Union - Local 888	School Cafeteria	40	6/30/06

(1) Expired contracts are in negotiation.

LITIGATION

At present there are various cases pending in various courts throughout the Commonwealth where the Town of Shrewsbury is a defendant. In the opinion of the Town, none of the pending litigation is likely to result, either individually or in the aggregate, in final judgments against the Town that would materially affect its financial position or its ability to pay its obligations.

TOWN OF SHREWSBURY
/s/ Ms. Carolyn J. Marcotte
Town Treasurer

November 1, 2004

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TOWN OF SHREWSBURY, MASSACHUSETTS

**REPORT ON THE EXAMINATION
OF BASIC FINANCIAL STATEMENTS**

FISCAL YEAR ENDED JUNE 30, 2003

**THOMAS J. SCANLON
CERTIFIED PUBLIC ACCOUNTANT
4A SUGARLOAF STREET
SO. DEERFIELD, MA 01373**

<p style="text-align: center;">TOWN OF SHREWSBURY, MASSACHUSETTS TABLE OF CONTENTS</p>

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Thomas J. Scanlon

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THOMAS J. SCANLON, CPA

C. GREGORY WINTERS, CPA

Independent Auditors' Report

To the Honorable Board of Selectmen
Shrewsbury, Massachusetts

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Shrewsbury, Massachusetts, as of and for the fiscal year ended June 30, 2003, (except for the Shrewsbury Contributory Retirement System, which is as of and for the year ended December 31, 2002), which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town of Shrewsbury, Massachusetts' management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as, evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

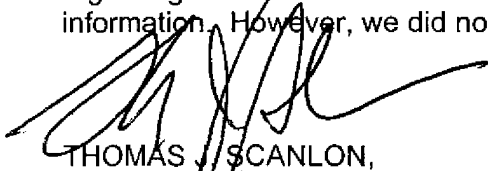
In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Shrewsbury, Massachusetts, as of June 30, 2003, (except for the Shrewsbury Contributory Retirement System, which is as of December 31, 2002), and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As more fully described in Note 5, the Town has implemented several Governmental Accounting Standards Board Statements, which changed the beginning fund equity position of several funds and established net assets for governmental activities and business-type activities.

In accordance with Government Auditing Standards, we have also issued our report dated March 31, 2004, on our consideration of the Town of Shrewsbury, Massachusetts' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the general purpose financial statements of the Town of Shrewsbury, Massachusetts, taken as a whole. The supplementary supporting statements listed in the Table of Contents are presented for purposes of additional analysis and are not a required part of the general purpose financial statements of the Town of Shrewsbury, Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements taken as a whole.

Management's discussion and analysis, located on the following pages, are not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



THOMAS J. SCANLON,
Certified Public Accountant

South Deerfield, Massachusetts

March 31, 2004

Management's Discussion and Analysis

As management of the Town of Shrewsbury, we offer readers of these financial statements this narrative overview and analysis of the financial activities for the fiscal year ended June 30, 2003. This is the first year our financial statements have been prepared under the Governmental Accounting Standards Board Statement Number 34 – Basic financial statements – and Management's Discussion and Analysis – for State and Local Governments. This new reporting model represents a major change when compared to prior financial statements.

Overview of the Financial Statements

This discussion and analysis is intended to serve, as an introduction to the Town of Shrewsbury's basic financial statements. These basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of finances, in a manner similar to private-sector business.

The *statement of net assets* presents information on all assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities include general government, public safety, public works (including water), education, health and human services, culture and recreation, employee benefits and insurance, state assessments and interest. The business-type activities include the sewer, electric light and cable television activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund statements focus on *near-term inflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decision. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Town of Shrewsbury adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. The Town maintains the following type of proprietary fund.

Enterprise funds are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Town uses enterprise funds to account for its sewer, electric light and community cablevision activities.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statement because the resources of those funds are *not* available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the basic financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Financial Highlights

Statement of Net Assets Highlights

	Governmental Activities	Business-Type Activities
Assets:		
Current assets	\$ 48,222,652	\$ 30,211,797
Noncurrent assets (excluding capital assets)	39,689,551	1,145,726
Capital assets	105,338,010	42,449,878
Total assets	193,250,213	73,807,401
Liabilities:		
Current liabilities (excluding debt)	6,051,035	545,145
Noncurrent liabilities (excluding debt)	795,405	239,072
Current debt	27,798,962	555,561
Noncurrent debt	67,727,454	5,950,272
Total liabilities	102,372,856	7,290,050
Net Assets:		
Capital assets net of related debt	51,377,898	35,944,045
Restricted	27,981,924	-
Unrestricted	11,517,535	30,573,306
Total net assets	90,877,357	66,517,351

Financial Highlights

Statement of Activities Highlights

	Governmental Activities	Business-Type Activities
Program Revenues:		
Charges for services	9,187,343	37,431,013
Operating grants and contributions	16,578,786	758,563
Capital grants and contributions	739,151	21,245
General Revenues:		
Property taxes	36,811,269	-
Motor vehicle and other excise taxes	4,469,003	-
Hotel room occupancy taxes	52,078	-
Penalties and interest on taxes	168,798	-
Nonrestricted grants	2,994,981	-
Unrestricted investment income	1,597,015	208,295
Net decrease in fair market value of investments	(771,312)	-
Total revenues	71,827,112	38,419,116
Expenses:		
General government	4,839,941	-
Public safety	5,963,646	-
Public works	4,380,975	-
Education	36,886,157	-
Health and human services	2,080,869	-
Culture and recreation	1,894,664	-
Employee benefits and insurance	9,643,878	-
State assessments	191,478	-
Interest	4,176,617	-
Sewer	-	2,295,912
Electric light	-	24,381,415
Community cablevision	-	6,075,223
Total expenses	70,058,225	32,752,550
Transfers, net	(542,028)	542,028
Change in net assets	1,226,859	6,208,594

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. Assets exceeded liabilities by \$157,394,708 at the close of FY2003.

Net assets of \$87,321,943 (55%) reflects its investment in capital assets (e.g., land, buildings, machinery, and equipment), less any related debt used to acquire those assets that are still outstanding. The Town uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the investment in its capital assets is reported net of its related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. An additional portion of the net assets \$27,981,924 (18%) represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets* \$42,090,841 (27%) may be used to meet the government's ongoing obligations to citizens and creditors.

At the end of the current fiscal year, the Town is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

There was an increase of \$6,208,594 in net assets reported in connection with the sewer, electric light and community cablevision business-type activities. The sewer department increase of \$1,112,049 was attributable to budgeting revenues sufficient to cover current operational costs of \$172,962 and a net general fund subsidy of \$939,087. The electric light department increase of \$4,346,488 was attributed to operating revenue (non-operating) exceeding operating expenses of \$4,459,620 less transfers to the general of \$113,132. The community cablevision increase of \$750,057 was attributed to operating revenue (non-operating) exceeding operating expenses of \$1,033,984 less transfers to the general of \$283,927.

The governmental activities net assets increased by \$1,226,859 during the current fiscal year, which reflects the general fund's results of operation. Since this is the first year of reporting under GASB #34 no meaningful historical trends have been established to draw further conclusions.

The health and human services governmental activities budget incurred an increase in the net (expenses) revenues of \$809,172. This increase was caused by receipts for dumping ash into the Town's landfill from other entities. This occurred in fiscal year 2003 and partly in fiscal year 2004. The funds will be used for future landfill expenses.

Financial Analysis of the Government's Funds

As noted earlier, the Town uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$16,332,871 a decrease of \$(18,429,919) in comparison with the prior year. This was primarily the result of expenditures for bonded capital projects for which bonds were issued in the previous fiscal year and subsequently expended in the current fiscal year, or from use of temporary borrowing to finance expenditures in anticipation of bonds to be issued in a subsequent fiscal year.

The general fund is the chief operating fund. At the end of the current fiscal year, unreserved fund balance of the general fund was \$3,885,029, while total fund balance reached \$11,389,726. As a measure of the general fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 5.9 % of total general fund expenditures, while total fund balance represents 17.3% of that same amount.

The fund balance of the general fund decreased by \$(1,479,958). Of this amount \$1,999,073 was attributed to the expenditures over revenues, \$250,000 transferred to the stabilization fund, \$1,311,143 of net transfers from other nonmajor governmental funds and \$542,028 of transfers to the business-type activities.

The stabilization fund has accumulated a fund balance of \$879,117 that represents 1.3% of general fund expenditures. These funds can be used for general or capital purposes upon Town meeting approval. Please refer to Note 3G for additional information.

General Fund Budgetary Highlights

There was a negative variance in state receipts of \$216,079 attributed to a reduction in state aid.

There was an increase of \$1,312,772 between the original budget and the final amended budget. The increase is attributed from the Town amending specific expenditure line items of the final budget, primarily in the insurance and employees benefits budget of \$182,000, in the education budget of \$445,865, in the public works budget of \$326,000 for snow and ice expenditures, and water improvement projects of \$230,000 among other budget line items. Of the \$5,358,171 under budget expenditures \$3,817,281 has been carried over to fiscal year 2004.

A negative variance of \$78,225 exists in education. This was attributed to school charter and school choice assessments. A negative variance of \$7,220 exists in the state assessments. This was attributed to the expenditures exceeding the amount estimated for state assessments.

Capital Asset and Debt Administration

The Town's outstanding governmental debt, as of June 30, 2003, totaled \$95,526,416. The primary debt is education debt of \$66,965,000, senior center building debt of

\$600,000, conservation land acquisition debt of \$4,265,000 and septic Title V debt of \$77,285. Debt also includes bond anticipation notes of \$23,619,131 consisting primarily of education debt of \$17,500,000, conservation debt of \$6,000,000 and septic Title V debt of \$119,131. The business-type funds have \$6,505,833 consisting of sewer debt of \$465,833, electric light debt of \$2,160,000 and community cablevision debt of \$3,880,000.

Please refer to notes 3C, 3E and 3F for further discussion of the capital and debt activity.

Requests for Information

This financial report is designed to provide a general overview of the Town of Shrewsbury's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Town Accountant, Town Hall, 100 Maple Avenue, Shrewsbury, Massachusetts.

TOWN OF SHREWSBURY, MASSACHUSETTS
STATEMENT OF NET ASSETS
JUNE 30, 2003

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
ASSETS			
CURRENT:			
Cash and Cash Equivalents	\$ 6,234,858	\$ 15,983,722	\$ 22,218,580
Investments	37,731,071	-	37,731,071
Accrued income	52,489	-	52,489
Receivables, net of allowance for uncollectibles:			
Property Taxes	265,083	-	265,083
Deferred Property Taxes	31,578	-	31,578
Taxes in Litigation	2,384	-	2,384
Tax Liens	167,360	-	167,360
Excise Taxes	324,774	-	324,774
User Charges	276,676	2,509,615	2,786,291
Departmental	2,000	-	2,000
Special Assessments	30,277	427,147	457,424
Due from Other Governments	3,104,102	-	3,104,102
Inventories	-	549,770	549,770
Prepaid Expenses	-	1,460,503	1,460,503
Restricted Cash and Investments:			
Depreciation Fund	-	2,627,924	2,627,924
Stranded Investment Fund	-	6,569,348	6,569,348
Investment in Other Companies	-	83,768	83,768
Total current assets	48,222,652	30,211,797	78,434,449
NONCURRENT:			
Receivables, net of allowance for uncollectibles:			
Special Assessments	337,797	1,145,726	1,483,523
Due from Other Governments	39,351,754	-	39,351,754
Capital Assets, net of accumulated Depreciation	105,338,010	42,449,878	147,787,888
Total noncurrent assets	145,027,561	43,595,604	188,623,165
Total Assets	193,250,213	73,807,401	267,057,614
LIABILITIES			
CURRENT:			
Warrants Payable	801,713	366,807	1,168,520
Accrued Payroll	2,295,110	107,260	2,402,370
Employee Withholdings	992,082	-	992,082
Tax Refund Payable	141,550	-	141,550
Accrued Interest	1,592,138	63,473	1,655,611
Compensated Absences	228,442	7,605	236,047
Bonds and Notes Payable	27,798,962	555,561	28,354,523
Total current liabilities	33,849,997	1,100,706	34,950,703
NONCURRENT:			
Compensated Absences	795,405	239,072	1,034,477
Bonds and Notes Payable	67,727,454	5,950,272	73,677,726
Total noncurrent liabilities	68,522,859	6,189,344	74,712,203
Total Liabilities	102,372,856	7,290,050	109,662,906
NET ASSETS:			
Invested in Capital Assets, net of related debt	51,377,898	35,944,045	87,321,943
Restricted for:			
Capital Projects	17,487,083	-	17,487,083
Federal & State Grants	1,149,934	-	1,149,934
Permanent Funds	1,809,210	-	1,809,210
Other Purposes	7,535,697	-	7,535,697
Unrestricted	11,517,535	30,573,306	42,090,841
Total Net Assets	\$ 90,877,357	\$ 66,517,351	\$ 157,394,708

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2003**

	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental Activities:							
General Government	\$ 4,839,941	\$ 566,484	\$ 171,346	\$ -	\$ (4,102,111)	\$ -	\$ (4,102,111)
Public Safety	5,963,646	852,416	401,092	-	(4,710,138)	-	(4,710,138)
Public Works (including Water)	4,380,975	2,686,750	51,296	739,151	(903,778)	-	(903,778)
Education	36,886,157	2,354,495	11,530,178	-	(23,001,484)	-	(23,001,484)
Health and Human Services	2,080,869	2,390,334	499,707	-	809,172	-	809,172
Culture and Recreation	1,894,664	336,864	126,823	-	(1,430,977)	-	(1,430,977)
Employee Benefits and Insurance	9,643,878	-	3,580,386	-	(6,063,492)	-	(6,063,492)
State Assessments	191,478	-	-	-	(191,478)	-	(191,478)
Interest	4,176,617	-	217,958	-	(3,958,659)	-	(3,958,659)
Total Governmental Activities	70,058,225	9,187,343	16,578,786	739,151	(43,552,945)	-	(43,552,945)
Business-Type Activities:							
Sewer	2,295,912	2,447,629	-	21,245	-	172,962	172,962
Electric Light	24,381,415	27,874,177	758,563	-	-	4,251,325	4,251,325
Community Cablevision	6,075,223	7,109,207	-	-	-	1,033,984	1,033,984
Total Primary Government	\$ 102,810,775	\$ 46,618,356	\$ 17,337,349	\$ 760,396	(43,552,945)	5,458,271	(38,094,674)
General Revenues:							
Property Taxes					36,811,269	-	36,811,269
Motor vehicle and other excise taxes					4,469,003	-	4,469,003
Hotel Room Occupancy Taxes					52,078	-	52,078
Penalties & Interest on Taxes					168,798	-	168,798
Grants & Contributions not restricted to specific programs					2,994,981	-	2,994,981
Unrestricted Investment Income					1,597,015	208,295	1,805,310
Net decrease in fair market value of investments					(771,312)	-	(771,312)
Transfers, net					(542,028)	542,028	-
Total General Revenues and Transfers					44,779,804	750,323	45,530,127
Change in Net Assets					1,226,859	6,208,594	7,435,453
Nets Assets:							
Beginning of year					89,650,498	60,308,757	149,959,255
End of year					\$ 90,877,357	\$ 66,517,351	\$ 157,394,708

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2003**

	General Fund	Stabilization Fund	Senior High School Construction Fund	Middle School Renovation Fund	Allen Farm Property Acquisition Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS							
Cash and Cash Equivalents	\$ 320,990	\$ -	\$ (530,147)	\$ (1,605,567)	\$ -	\$ 8,049,582	\$ 6,234,858
Investments	15,282,184	879,117	3,995,800	14,051,190	-	3,522,780	37,731,071
Accrued interest	52,489	-	-	-	-	-	52,489
Receivables, net of allowance for uncollectibles:							
Property Taxes	265,083	-	-	-	-	-	265,083
Deferred Property Taxes	31,578	-	-	-	-	-	31,578
Taxes in Litigation	2,384	-	-	-	-	-	2,384
Tax Liens	167,360	-	-	-	-	-	167,360
Excise Taxes	324,774	-	-	-	-	-	324,774
Departmental	1,440	-	-	-	-	560	2,000
User Charges	276,676	-	-	-	-	-	276,676
Special Assessments	253,072	-	-	-	-	115,002	368,074
Due from Other Governments	41,451,301	-	-	-	-	1,004,555	42,455,856
Total Assets	\$ 58,429,331	\$ 879,117	\$ 3,465,653	\$ 12,445,623	\$ -	\$ 12,692,479	\$ 87,912,203
LIABILITIES AND FUND EQUITY:							
Liabilities:							
Warrants Payable	\$ 784,159	\$ -	\$ -	\$ 2,858	\$ -	\$ 14,696	\$ 801,713
Accrued Payroll	2,155,288	-	-	1,570	-	138,252	2,295,110
Employee Withholdings	992,082	-	-	-	-	-	992,082
Tax Refund Payable	141,550	-	-	-	-	-	141,550
Accrued Interest on Short-Term Debt	350,868	-	-	-	-	-	350,868
Deferred Revenue:							
Property Taxes	107,073	-	-	-	-	-	107,073
Other	42,508,585	-	-	-	-	763,220	43,271,805
Notes Payable	-	-	-	15,670,000	6,000,000	1,949,131	23,619,131
Total Liabilities	47,039,605	-	-	15,674,428	6,000,000	2,865,299	71,579,332
Fund Equity:							
Reserved For:							
Encumbrances and continuing appropriations	3,817,281	-	-	-	-	-	3,817,281
Unreserved:							
Designated for subsequent year's expenditures	3,362,416	185,000	-	-	-	1,654,831	5,202,247
Undesignated, reported in:							
General Fund	4,210,029	-	-	-	-	-	4,210,029
Special Revenue	-	694,117	-	-	-	6,732,035	7,426,152
Capital Projects	-	-	3,465,653	(3,228,805)	(6,000,000)	(368,896)	(6,132,048)
Permanent Funds	-	-	-	-	-	1,809,210	1,809,210
Total Fund Equity	11,389,726	879,117	3,465,653	(3,228,805)	(6,000,000)	9,827,180	16,332,871
Total Liabilities and Fund Equity	\$ 58,429,331	\$ 879,117	\$ 3,465,653	\$ 12,445,623	\$ -	\$ 12,692,479	\$ 87,912,203

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF SHREWSBURY, MASSACHUSETTS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Stabilization Fund	Senior High School Construction Fund	Middle School Renovation Fund	Allen Farm Property Acquisition Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues:							
Taxes	\$ 36,805,040	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,805,040
State Receipts	12,401,546	-	-	-	-	-	12,401,546
Excise and Other Taxes	4,520,176	-	-	-	-	-	4,520,176
Licenses, Permits, Fees	5,583,600	-	-	-	-	-	5,583,600
Interest on Taxes	168,798	-	-	-	-	-	168,798
Investment Income:							
Interest	1,561,045	35,970	-	-	-	445,679	2,042,694
Net increase (decrease) in fair market value of investments	(678,235)	28,101	(121,178)	-	-	104,329	(666,983)
Intergovernmental	3,583,966	-	-	-	-	-	3,583,966
Grants and Fees	-	-	-	-	-	7,254,972	7,254,972
Total Revenues	63,945,936	64,071	(121,178)	-	-	7,804,980	71,693,809
Expenditures:							
Current:							
General Government	4,590,210	-	-	-	6,000,000	241,595	10,831,805
Public Safety	5,378,482	-	-	-	-	494,560	5,873,042
Public Works (including Water)	3,811,365	-	-	-	-	335,874	4,147,239
Education	32,233,657	-	8,287,351	2,800,453	-	4,833,524	48,154,985
Health and Human Services	1,696,978	-	-	-	-	309,724	2,006,702
Culture and Recreation	1,565,195	-	-	-	-	283,609	1,848,804
Employee Benefits and Insurance	9,593,877	-	-	-	-	50,001	9,643,878
State Assessments	191,478	-	-	-	-	-	191,478
Debt Service:							
Principal	1,586,282	-	-	-	-	-	1,586,282
Interest	5,297,485	-	-	-	-	-	5,297,485
Total Expenditures	65,945,009	-	8,287,351	2,800,453	6,000,000	6,548,887	89,581,700
Excess of Revenues Over (Under) Expenditures	(1,999,073)	64,071	(8,408,529)	(2,800,453)	(6,000,000)	1,256,093	(17,887,891)
Other Financing Sources (Uses):							
Operating Transfers In	1,795,161	250,000	-	-	-	26,958	2,072,119
Operating Transfers Out	(1,276,046)	-	-	-	-	(1,338,101)	(2,614,147)
Total Other Financing Sources (Uses)	519,115	250,000	-	-	-	(1,311,143)	(542,028)
Net Change in Fund Balances	(1,479,958)	314,071	(8,408,529)	(2,800,453)	(6,000,000)	(55,050)	(18,429,919)
Fund Balances, Beginning of Year (as restated)	12,869,684	565,046	11,874,182	(428,352)	-	9,882,230	34,762,790
Fund Balances, End of Year	\$ 11,389,726	\$ 879,117	\$ 3,465,653	\$ (3,228,805)	\$ (6,000,000)	\$ 9,827,180	\$ 16,332,871

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF SHREWSBURY, MASSACHUSETTS
Reconciliation of the Governmental Funds Balance Sheet
Total Fund Balances to the Statement of Net Assets
For the Year Ended June 30, 2003

Total Governmental Fund Balances		\$ 16,332,871
Capital Assets (net) used in governmental activities are not financial resources and, therefore, are not reported in the funds		105,338,010
Revenues are recognized on an accrual basis of accounting instead of a modified accrual basis		43,378,878
Long Term liabilities are not due and payable in the current period and, therefore, are not reported in governmental funds:		
Bonds and Notes Payable	\$ (71,907,285)	
Compensated Absences	<u>(1,023,847)</u>	(72,931,132)
In statement of activities, interest is accrued on outstanding long term debt, whereas in governmental funds interest is not reported until due		<u>(1,241,270)</u>
Net Assets of Governmental Activities		<u><u>\$ 90,877,357</u></u>

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF SHREWSBURY, MASSACHUSETTS
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2003

Net Change in Fund Balances - Total Governmental Funds **\$ (18,429,919)**

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:

Capital Outlay Purchases	\$ 18,645,144	
Depreciation	<u>(1,828,819)</u>	16,816,325

Revenue in the Statement of Activities that do not provide current financial resources are fully deferred in the Statement of Revenues, Expenditures and Changes in Fund Balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue 133,303

The Issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net assets:

Repayment of Debt Principal		1,586,282
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Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Accrued Interest		<u>1,120,868</u>
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Change in Net Assets of Governmental Activities **\$ 1,226,859**

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
STATEMENT OF REVENUES AND EXPENDITURES -
BUDGETARY BASIS - (NON-GAAP) -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual	Variance with Final Budget
	Original Budget	Final Budget	Budgetary Basis	Positive (Negative)
Revenues:				
Taxes	\$ 39,327,908	\$ 36,726,041	\$ 36,833,752	\$ 107,711
State Receipts	12,617,625	12,617,625	12,401,546	(216,079)
Excise and Other Taxes	3,790,000	3,790,000	4,520,176	730,176
Licenses, Permits, Fees	4,711,090	4,711,090	5,583,600	872,510
Interest on Taxes	130,000	130,000	168,798	38,798
Interest on Investments	890,000	890,000	1,561,045	671,045
Total Revenues	61,466,623	58,864,756	61,068,917	2,204,161
Expenditures:				
Current:				
General Government	6,119,864	5,834,932	4,590,210	1,244,722
Public Safety	5,555,335	5,777,244	5,378,482	398,762
Public Works (including Water)	6,271,009	6,948,251	3,811,366	3,136,885
Education	31,709,567	32,155,432	32,233,657	(78,225)
Health and Human Services	1,755,928	1,769,528	1,696,978	72,550
Culture and Recreation	1,806,223	1,863,096	1,565,195	297,901
Employee Benefits and Insurance	6,105,001	6,287,216	6,013,492	273,724
State Assessments	184,258	184,258	191,478	(7,220)
Debt Service:				
Principal	1,586,282	1,586,282	1,586,281	1
Interest	4,962,108	4,962,108	4,943,037	19,071
Total Expenditures	66,055,575	67,368,347	62,010,176	5,358,171
Excess of Revenues Over (Under) Expenditures	(4,588,952)	(8,503,591)	(941,259)	7,562,332
Other Financing Sources (Uses):				
Operating Transfers In (Out)	(644,524)	519,115	519,115	-
Total Other Financing Sources (Uses)	(644,524)	519,115	519,115	-
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	(5,233,476)	(7,984,476)	(422,144)	7,562,332
Budgetary Fund Balance - Beginning of Year	12,869,685	12,869,685	12,869,685	-
Budgetary Fund Balance - End of Year	\$ 7,636,209	\$ 4,885,209	\$ 12,447,541	\$ 7,562,332

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF SHREWSBURY, MASSACHUSETTS
Reconciliation of Revenues and Expenditures
from Budgetary Basis to GAAP Basis
For the Year Ended June 30, 2003

	<u>Revenues</u>	<u>Expenditures</u>
Reported on a Budgetary Basis	\$ 61,068,917	\$ 62,010,176
Net Decrease in Revenue from recording Refund Taxes Payable	(54,549)	
Net Increase in Expenditures - Accrued Expenses		350,868
Recognition of intergovernmental Revenue - "on behalf payments"	3,583,965	
Recognition of Expenditures - "on behalf payments"		3,583,965
Net Decrease in Fair Value of Investments	(678,235)	
Net Increase in Revenue from Recording 60-Day Receipts	<u>25,838</u>	
Reported on a GAAP Basis	<u>\$ 63,945,936</u>	<u>\$ 65,945,009</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
STATEMENT OF NET ASSETS - PROPRIETARY FUNDS
JUNE 30, 2003**

		Business-Type Activities Enterprise Funds			
		Sewer Fund	Electric Light Fund	Community Cablevision Fund	Total
ASSETS					
CURRENT:					
Cash and Cash Equivalents	\$	8,179,632	\$ 6,857,913	\$ 946,177	\$ 15,983,722
User Charges, net of allowance for uncollectibles		171,564	1,809,770	528,281	2,509,615
Special Assessments		427,147	-	-	427,147
Inventory		-	212,193	337,577	549,770
Prepaid Expenses		-	1,460,503	-	1,460,503
Restricted Cash and Investments:					
Depreciation Fund		-	2,627,924	-	2,627,924
Stranded Investment Fund		-	6,569,348	-	6,569,348
Investment in Other Companies		-	83,768	-	83,768
Total current assets		8,778,343	19,621,419	1,812,035	30,211,797
NONCURRENT:					
Special Assessments		1,145,726	-	-	1,145,726
Capital Assets, net of accumulated depreciation		8,770,474	21,925,483	11,753,921	42,449,878
Total noncurrent assets		9,916,200	21,925,483	11,753,921	43,595,604
Total Assets		18,694,543	41,546,902	13,565,956	73,807,401
LIABILITIES					
CURRENT:					
Accounts Payable		25,522	208,504	132,781	366,807
Accrued Payroll		6,627	72,300	28,333	107,260
Accrued Interest		9,410	39,533	14,530	63,473
Compensated Absences		511	5,669	1,425	7,605
Bonds and Notes Payable		20,561	180,000	355,000	555,561
Total current liabilities		62,631	506,006	532,069	1,100,706
NONCURRENT:					
Compensated Absences		9,708	183,305	46,059	239,072
Bonds and Notes Payable		445,272	1,980,000	3,525,000	5,950,272
Total noncurrent liabilities		454,980	2,163,305	3,571,059	6,189,344
Total Liabilities		517,611	2,669,311	4,103,128	7,290,050
NET ASSETS:					
Invested in Capital Assets, net of related debt		8,304,641	19,765,483	7,873,921	35,944,045
Unrestricted		9,872,291	19,112,108	1,588,907	30,573,306
Total Net Assets	\$	18,176,932	\$ 38,877,591	\$ 9,462,828	\$ 66,517,351

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Electric Light Fund	Community Cablevision Fund	Total
Operating Revenues:				
Charges for Services	\$ 2,447,629	\$ 27,843,230	\$ 7,044,645	\$ 37,335,504
Other	-	30,947	64,562	95,509
Total Operating Revenues	2,447,629	27,874,177	7,109,207	37,431,013
Operating Expenses:				
Salaries & Wages	205,273	2,264,865	873,096	3,343,234
Operating Expenses	1,789,126	20,928,819	3,846,487	26,564,432
Depreciation	278,572	1,072,505	1,159,432	2,510,509
Total Operating Expenses	2,272,971	24,266,189	5,879,015	32,418,175
Operating Income (Loss)	174,658	3,607,988	1,230,192	5,012,838
Non-Operating Revenues (Expenses):				
Interest Income	-	208,295	-	208,295
Intergovernmental	21,245	-	-	21,245
Other Income	-	758,563	-	758,563
Interest Expense	(22,941)	(115,226)	(196,208)	(334,375)
Total Non-Operating Revenues (Expenses)	(1,696)	851,632	(196,208)	653,728
Income (Loss) Before Operating Transfers	172,962	4,459,620	1,033,984	5,666,566
Operating Transfers:				
Transfer In	999,087	-	-	999,087
Transfers (Out)	(60,000)	(113,132)	(283,927)	(457,059)
Total Operating Transfers	939,087	(113,132)	(283,927)	542,028
Change in Net Assets	1,112,049	4,346,488	750,057	6,208,594
Net Assets at Beginning of Year (as restated)	17,064,883	34,531,103	8,712,771	60,308,757
Net Assets at End of Year	\$ 18,176,932	\$ 38,877,591	\$ 9,462,828	\$ 66,517,351

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Electric Light Fund	Community Cablevision Fund	Total
Cash Flows From Operating Activities:				
Receipts from Customers and Users	\$ 2,348,686	\$ 27,779,576	\$ 6,727,644	\$ 36,855,906
Receipts from Other Revenues	-	30,947	64,562	95,509
Payments to Vendors	(1,765,938)	(20,740,176)	(3,775,484)	(26,281,598)
Payments to Employees	(203,794)	(2,255,488)	(870,008)	(3,329,290)
Net Cash Provided by (Used for) Operating Activities	378,954	4,814,859	2,146,714	7,340,527
Cash Flows from Noncapital Financing Activities:				
Transfers from (to) Other Funds	939,087	(113,132)	(283,927)	542,028
Net Cash Provided by (Used for) Noncapital Financing Activities	939,087	(113,132)	(283,927)	542,028
Cash Flows from Capital and Related Financing Activities:				
Intergovernmental Revenues	21,245	-	-	21,245
Acquisition and Construction of Capital Assets	-	(4,223,412)	(1,679,152)	(5,902,564)
Principal Payments on Bonds and Notes	(20,355)	(180,000)	(535,000)	(735,355)
Interest Expense	(23,196)	(149,010)	(201,140)	(373,346)
Net Cash Provided by (Used for) Capital and Related Financing Activities	(22,306)	(4,552,422)	(2,415,292)	(6,990,020)
Net Increase (Decrease) in Cash and Cash Equivalents	1,295,735	149,305	(552,505)	892,535
Cash and Cash Equivalents at Beginning of Year	6,883,897	6,708,608	1,498,682	15,091,187
Cash and Cash Equivalents at End of Year	\$ 8,179,632	\$ 6,857,913	\$ 946,177	\$ 15,983,722

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2003**

	Business-Type Activities Enterprise Funds			
	Sewer Fund	Electric Light Fund	Community Cablevision Fund	Total
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used For) Operating Activities:				
Operating Income (Loss)	\$ 174,658	\$ 3,607,988	\$ 1,230,192	5,012,838
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation	278,572	1,086,169	1,159,432	2,524,173
Change in Assets and Liabilities:				
Increase (Decrease) in Accounts Payable	23,188	81,135	132,781	237,104
Increase (Decrease) in Accrued Payroll	1,479	9,377	3,088	13,944
Decrease (Increase) in Inventories	-	(9,214)	(61,778)	(70,992)
Decrease (Increase) in Prepaid Expenses	-	103,058	-	103,058
Decrease (Increase) in Accounts Receivable	(98,943)	(63,654)	(317,001)	(479,598)
Total Adjustments	204,296	1,206,871	916,522	2,327,689
Net Cash Provided by (Used for) Operating Activities	<u>\$ 378,954</u>	<u>\$ 4,814,859</u>	<u>\$ 2,146,714</u>	<u>\$ 7,340,527</u>

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2003**

	SHREWSBURY		
	Employees		
	Retirement		
	System Pension		
	Trust Fund		
	(as of December	Private	Agency
	31, 2002)	Purpose	Funds
		Trust Funds	
ASSETS			
Cash and Cash Equivalents	\$ 651,025	\$ 3,019	\$ 143,269
Investments	38,594,500	290,626	7,222,738
Accrued Interest and Dividends	877	-	-
Accounts Receivable	2,504	-	-
Total Assets	39,248,906	293,645	7,366,007
LIABILITIES			
Warrants Payable	107,990	-	501
Due to Others	-	-	28,624
Due to Student Groups	-	-	145,544
Escrows and Deposits	-	-	7,191,338
Total Liabilities	107,990	-	7,366,007
NET ASSETS:			
Held in Trust for Pension Benefits and Other Purposes	\$ 39,140,916	\$ 293,645	\$ -

The Notes to the Financial Statements are an integral part of this Statement.

**TOWN OF SHREWSBURY, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	SHREWSBURY Employees Retirement System Pension Trust Fund (as of December 31, 2002)		Private Purpose Trust Funds
Additions			
Contributions:			
Employers	\$ 1,544,161	\$	-
Plan Members	1,411,560		-
Transfers/Reimbursements from Other Systems	237,959		-
Federal Grant Reimbursements	14,431		-
Commonwealth of Massachusetts - COLA	228,114		-
Private Donations	-		35,070
Total Contributions	3,436,225		35,070
Investment Income:			
Interest & Dividends	591,233		21,975
Net Change in Fair Value of Investments	(3,265,512)		-
Total Investment Earnings	(2,674,279)		21,975
Less Investment Expense	(48,030)		-
Net Investment Earnings	(2,722,309)		21,975
Total Additions	713,916		57,045
Deductions:			
Benefit Payments to Plan Members and Beneficiaries	3,330,022		-
Refunds to Members	156,973		-
Transfers to Other Systems	312,916		-
Educational Scholarships	-		45,609
Charitable Expenses	-		1,045
General Expenses	299,595		-
Total Deductions	4,099,506		46,654
Change in Net Assets	(3,385,590)		10,391
Nets Assets at Beginning of Year (as restated)	42,526,506		283,254
Nets Assets at End of Year	\$ 39,140,916	\$	293,645

The Notes to the Financial Statements are an integral part of this Statement.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Town of Shrewsbury, Massachusetts (the Town) was incorporated in 1727 under the laws of the Commonwealth of Massachusetts. The Town is governed by an elected five member Board of Selectmen.

For financial reporting purposes, the Town has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Town has also considered all potential component units for which it is financially accountable as well as other organizations for which the nature and significance of their relationship with the Town are such that exclusion would cause the basic financial statements to be misleading or incomplete.

Blended component units are entities that are legally separate from the Town, but are so related that they are, in substance, part of the Town's operations and so data from these units are combined with data of the primary government. The following component unit is blended within the primary government in the fiduciary funds:

The Shrewsbury Contributory Retirement System (the System) was established to provide retirement benefits to Town employees, the Town Housing Authority employees, and their beneficiaries. The System is governed by a five-member board comprised of the Town Accountant (ex-officio), two members elected by the System's participants, one member appointed by the Board of Selectmen, and one member appointed by the Board members. The System is presented using the accrual basis of accounting and is reported as a pension trust fund in the fiduciary fund financial statements.

The system did not issue a separate audited financial statement. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth of Massachusetts Public Employee Retirement Administration Commission (PERAC). That report may be obtained by contacting the System located at 100 Maple Avenue, Shrewsbury, Massachusetts.

The Town is responsible for electing the governing board of the Shrewsbury Housing Authority. This related organization is excluded from the financial reporting entity because the Town's accountability does not extend beyond the Town electing the board members. Audited financial statements are available from the respective organization. A description of the related organization is as follows:

Shrewsbury Housing Authority - A public housing agency that provides housing assistance to eligible and qualified low and moderate income elderly, handicap and families. The housing authority is an autonomous and self-sufficient agency under the State Executive Office of Communities and Development. The Town has no significant influence over management, budget or policies of the authority.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

The accompanying basic financial statements of the Town of Shrewsbury, Massachusetts (the Town) have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Town accounting policies are described herein.

B. GASB Statement No. 34

In fiscal year 2003, the Town implemented the Governmental Accounting Standards Board Statement No. 34, Basis Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments. Accordingly, the financial statements include, for the first time, a Management’s Discussion and Analysis, Government-Wide, and Fund Financial Statements, with the focus on major funds, as more fully disclosed in other sections of Note 1.

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which are primarily supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which are supported primarily by user fees and charges.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. Non-major funds are aggregated and displayed in a single column.

Fiduciary funds are reported by fund type.

D. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The governmental-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis* of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis* of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to be used to pay current liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, excises and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

Entitlements and shared revenues are recorded at the time of receipt or earlier if the susceptible to accrual criteria is met. Expenditure driven grants recognize revenue when the qualifying expenditures are incurred and all other grant requirements are met.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The *stabilization fund* is a special revenue fund used to account for the accumulation of resources to provide general and/or capital reserves, and planning and development's ongoing and future operations.

The *senior high school construction fund* is used to account for financial resources to construct a new senior high school.

The *middle school renovation fund* is used to account for financial resources to remodel, reconstruct and make repairs to the old high school for use as a middle school.

The *Allen farm property acquisition fund* is used to account for financial resources to acquire the land and buildings situated in the Town.

The government reports the following major proprietary funds:

The *sewer fund* is used to account for the sewer activities.

The *electric light fund* is used to account for activities of the government's electric distribution operations.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

The *community cablevision fund* provides transmission of cable television signals, and the installations necessary for the customers to receive them.

Additionally, the government reports the following fund types:

Fiduciary fund financial statements are reported using the flow of economic resources measurement focus and use the accrual basis of accounting. Fiduciary funds are used to account for assets held in a trustee capacity for others that cannot be used to support the government programs.

The *Shrewsbury Employees Retirement System Pension trust fund* is used to account for the activities of the System, which accumulates resources to provide pension benefits to eligible retirees and their beneficiaries.

The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in the permanent fund, under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

The non-major governmental fund consists of other special revenue, capital projects, and permanent funds that are aggregated and presented in the *non-major governmental funds* column on the governmental funds financial statements. The following describes the general use of these funds types:

The *special revenue fund* is used to account for the proceeds of specific revenue sources (other than permanent funds or capital projects funds) that are restricted by law or administrative action to expenditures for specified purposes.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Enterprise and Trust Funds).

The *permanent fund* is used to account for financial resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the governmental programs.

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

E. Cash and Cash Equivalents

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with an original maturity of three months or less from the date of acquisition. The Town maintains a cash and investment pool that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption, "cash and cash equivalents".

Excluding the permanent funds, investment income derived from major and non-major governmental funds is legally assigned to the general fund unless otherwise directed by Massachusetts General Laws (MGL).

Investment income from proprietary funds is maintained in those funds.

F. Investments

State and local statutes place certain limitations on the nature of deposits and investments to the Town. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U. S. Government or agencies that have a maturity of less than one year from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

Investments in the Contributory Retirement System consist of marketable securities, bonds and short-term money market investments.

All investments are carried at fair value.

G. Receivables

The recognition of revenues related to accounts receivable reported in the government-wide financial statements and fund financial statements are reported under the accrual basis of accounting and the modified accrual basis of accounting, respectively.

Property Taxes, Deferred Property Taxes, Taxes in Litigation, and Tax Liens

Property taxes are based on assessments as of January 1, 2002 and include betterments, special assessments and liens. Taxes are used to finance the operations of the Town for the fiscal year July 1st to June 30th. By law, all taxable property in the Commonwealth of Massachusetts must be assessed at 100% of fair cash value. Taxes are due and payable

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

on July 1st. The Town has accepted the quarterly tax payment system. Under the quarterly tax payment system, the assessors make a preliminary tax commitment based on the prior year's net tax and may not exceed, with limited exceptions, fifty percent of that amount. The collector must mail preliminary tax bills each year by July 1st. The preliminary tax is payable in two equal installments. The first installment is due on August 1st and the second installment is due on November 1st. After the Town sets the tax rate, the assessors make the actual tax commitment. If actual bills are mailed on or before December 31st, the balance remaining is payable in two equal installments. The first installment is due on February 1st and the second installment is due on May 1st. If bills are mailed after December 31st, the entire balance is not due until May 1st or thirty days after the bills were mailed, whichever is later. Any betterments, special assessments and other charges are added to the actual bills. Interest at the rate of 14% is charged on the amount of any preliminary tax or actual tax installment payment that is unpaid and delinquent and is charged only for the number of days the payment is actually delinquent. If actual tax bills are mailed after December 31st, interest will be computed from May 1st, or the payment due date, whichever is later. The Town has an ultimate right to foreclose on property for which taxes have not been paid. Property taxes levied are recorded as receivables. Revenues from property taxes are recognized in the fiscal year for which they have been levied.

The Town mailed preliminary tax bills for the fiscal year 2003 on June 28, 2002, that were due on August 1, 2002 and November 1, 2002 and actual bills on December 31, 2002 that were due on February 3, 2003 and May 1, 2003.

The Commonwealth of Massachusetts electorate in November, 1980, passed legislation known as Proposition 2 1/2, in order to limit the amount of revenue to be raised by taxation. The purpose of the legislation was to control the levy of taxes that are assessed to property owners of a Town. The legal levy limit under Proposition 2 1/2 for fiscal year 2003 is \$39,797,376 consisting of a base of \$34,764,572 and a debt exclusion of \$5,032,804. The total amount raised by taxation was \$37,027,303.

The allowance for uncollectible accounts is based on historical trends and specific account analysis.

Excise Taxes

Excise taxes consist of motor vehicle excise and vessel excise. Excise taxes are assessed annually for each vehicle and vessel registered in the Town, and are recorded as receivables in the fiscal year of levy. The Commonwealth is responsible for reporting the number of vehicles registered and the fair value of those vehicles. The Board of Assessors of the Town is responsible for determining the value of each vessel.

The tax calculation is the fair market value of the vehicle or vessel multiplied by the \$25 per \$1,000 of value and \$10 per \$1,000 of valuation, respectively.

The allowance for uncollectibles is estimated based on historical trends and specific account analysis.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

User Charges

User charges in the governmental funds consist of water that is levied monthly based on individual meter readings and usage and are subject to penalties and interest if they are not paid by the respective due date. Liens are processed each year and included as a lien on the property owner's tax bill.

User charges in the business-type funds consist of sewer, electric light and community cablevision that is levied monthly based on individual meter readings and usage and are subject to penalties and interest if they are not paid by the respective due date. Liens are processed each year and included as a lien on the property owner's tax bill. Sewer liens are recorded as receivables in the fiscal year of the levy.

The allowance for uncollectibles is estimated based upon historical trends and specific account analysis.

Departmental

Departmental receivables consist primarily of cemetery fees.

The allowance for uncollectibles relates to cemetery fees and is based upon historical trends.

Due from Other Governments

Various federal and state grants for operating and capital purposes are applied for and received annually. For non-expenditure driven grants, revenue is recognized as soon as all eligibility requirements imposed by the provider have been met. For expenditure driven grants, revenue is recognized when the qualifying expenditures are incurred and all other grant requirements are met.

These receivables are considered 100% collectible and, therefore, do not report an allowance for uncollectibles.

H. Inventories

Inventories in the business-type activities consists of parts and accessories purchased for use in the utility business for construction, operation, maintenance and installation purposes and are stated at cost.

I. Prepaid Expenses

Prepaid expenses in the electric light fund consists predominately of prepayments on purchased power. Prepaid expenses in the community cablevision fund are attributable to insurance, maintenance contracts, signal purchases and retirement payments.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

J. Capital Assets

Capital assets, which include land, construction in progress, buildings and renovations, machinery, equipment and other, and infrastructure assets (e.g. roads, water mains, sewer mains, and similar items), are reported in the applicable governmental or business-type activity column of the government wide financial statements. Capital assets are recorded at historical cost or at estimated historical cost if actual historical cost is not available. Donated capital assets are recorded at the estimated fair market value.

All purchase and construction costs in excess of \$10,000 are capitalized at the date of acquisition or construction, respectively, with expected useful lives of greater than one year.

Capital assets (excluding land) are depreciated on a straight-line basis. The estimated useful lives of fixed assets are as follows:

Capital Asset Type	Years
Buildings and renovations	20-40
Machinery, equipment and other	3-10
Infrastructure	20-50

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized and are treated as expenses when incurred. Improvements are capitalized.

K. Restricted Cash and Cash Equivalents

Certain assets of the electric light fund are classified as restricted because they are maintained in separate bank accounts and their use is limited.

- The *depreciation fund* is restricted to specific uses by the General Laws of Massachusetts.
- The *stranded investment fund* is used to deposit funds raised through a surcharge to cover stranded costs as they become due. The United States electric utility industry is undergoing rate deregulation that will increase competition in the generation and sale of power. As part of this transition, many utilities are requesting compensation for prior investments or commitments that will be rendered uneconomic in a competitive market. These uneconomic investments and commitments, commonly referred to as stranded costs, include costs associated with above-market power purchase contracts and costs associated with the closure of a power plant. As a matter of public policy, regulatory authorities have provided for the recovery of a utility's stranded investment through the implication of a surcharge in the rate base.

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- The *investment in other companies fund* is used to hold funds of the electric light fund's equity requirements for the Hydro-Quebec phase II interconnection as required under agreements with the New England Hydro-Transmission Electric Company, Inc. and the New England Hydro-Transmission Corporation.

L. Interfund Transfers

During the course of its operations, resources are permanently reallocated between and within funds. These transactions are reported as operating transfers in and operating transfers out.

In the government-wide financial statements, operating transfers between and within governmental funds are eliminated from the governmental activities in the statement of activities. Any residual balances outstanding between the governmental activities and business-type activities are reported in the statement of activities as "Transfers net".

In the fund financial statements, operating transfers between and within funds are not eliminated from the individual fund statements and are reported as operating transfers in and operating transfers out.

M. Deferred Revenue

Deferred revenue at the fund financial statement level represents billed receivables that do not meet the available criterion in accordance with the current financial resources measurement focus and the modified accrual basis of accounting. Deferred revenue is recognized as revenue in the conversion to the government-wide (full accrual) financial statements.

N. Net Assets and Fund Equity

Net assets are reported as restricted when amounts are not available for appropriation or are legally restricted by outside parties for a specific future use.

Net assets have been "restricted for" the following:

"Capital projects" represents amounts restricted for capital purposes.

"Federal and state grants" represents amounts restricted for by the federal and state government for various programs.

"Permanent funds – expendable" represents amounts held in trust for which the expenditures are restricted by various trust agreements.

"Other purposes" represents restrictions placed on assets from outside parties.

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balances

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represent tentative management plans that are subject to change. Fund balances have been "reserved for" the following:

"Encumbrances and continuing appropriations" represents amounts obligated under purchase orders, contracts and other commitments for expenditures that are being carried over to the ensuing fiscal year.

"Designated for subsequent years' expenditures" represents the amount of fund balance appropriated to be used for expenditures in the subsequent year's budget. The Town includes the following in the reserve:

General Fund:

Undesignated Fund Balance:

(Free Cash)	3,362,416
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Major Fund:

Stabilization Fund	185,000
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Nonmajor Governmental Funds:

Sale of Cemetery Lots	25,000	
Septic Loan Repayment Fund	4,831	
Home Farm Well Contamination Suit Fund	1,450,000	
Workers Compensation Fund	175,000	1,654,831
		<u>\$ 5,202,247</u>

O. Long-term Debt

Long-term debt is reported as liabilities in the government-wide and proprietary fund statement of net assets.

The face amount of governmental funds long-term debt is reported as other financing sources.

P. Compensated Absences

The Town grants to employees sick and vacation leave in varying amounts based upon length of service and in accordance with various individual union contracts. For Town employees, individuals are provided for a maximum of 20 days of accumulated sick leave. To be eligible, the individual must have accumulated a minimum of 150 days of sick leave and have twenty or more years of continuous service to the Town. Upon retirement, termination, or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their current rates of pay.

Q. Post Retirement Benefits

In addition to providing pension benefits, health insurance coverage is provided for retired employees and their survivors in accordance with MGL, Chapter 32, on a pay-as-you-go basis.

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R. Use of Estimates

The preparation of basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Information

An annual budget is adopted for the Town's General Fund. Although legislative approval is required for the acceptance of grants, capital projects, and borrowing authorizations, annual budgets are not prepared for any other fund; therefore, comparison of budget to actual is only presented for the General Fund.

The Town must establish its property tax rate each year so that the property tax rate levy will comply with the limits established by Proposition 2 1/2, as amended, and also equal the sum of (a) the aggregate of all annual appropriations for expenditures, plus (b) provision for prior year deficits, if any, less (c) the aggregate of all non property tax revenues estimated to be received, including available funds.

The Town follows these procedures in establishing the General Fund budgetary data as reflected in the financial statements:

All boards, officers and committees of the Town shall annually, at the request of the town manager, submit in writing a detailed estimate of the appropriations required for the efficient and proper conduct of their respective departments and offices during the next fiscal year.

Not less than ninety days prior to the date of the start of the annual Town meeting, the town manager shall submit to each member of the finance committee and of the board of selectmen, a copy of the annual budget.

The finance committee shall consider the annual budget prepared by the town manager and may confer with Town boards, officers, and committees and may hold hearings if they deem it advisable.

The finance committee shall thereupon approve or disapprove the amount. The committee shall furnish to the selectmen on or before April 1st of each year, a report with the recommendations and the same shall be printed and ready for distribution at the annual Town meeting.

The budget is legally enacted by vote at the annual Town meeting.

Supplemental appropriations may be made from available funds after the setting of the tax rate with Town meeting approval.

TOWN OF SHREWSBURY, MASSACHUSETTS
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Massachusetts law requires cities and towns to provide for a balanced budget. Section 23 of Chapter 59 of the Massachusetts General Laws states, in part,

"The assessors shall annually assess taxes to an amount not less than the aggregate of all amounts appropriated, granted or lawfully expended by their respective towns (cities) since the preceding annual assessment and not provided for therein . . ."

For fiscal year 2003, the Town incurred a final budget deficit of \$7,984,476 for the General Fund.

The Town voted from the following sources to fund the deficit budget during the fiscal year:

Unreserved fund balance:	
Free cash votes	\$ 4,656,000
Prior year's encumbrances	3,349,684
Reserved for over (under) estimates	(21,208)
	<u>\$ 7,984,476</u>

3. DETAILED NOTES

A. Cash and Investments

The Town maintains a cash and investment pool that is available for use by all funds. The portion of the pool allocated to each fund type is displayed on the combined balance sheet as "Cash and Cash Equivalents."

State and local statutes place certain limitations on the nature of deposits and investments to the Town. Generally, the treasurer of the Town is authorized to invest in the following investments: national banks, savings banks or banking companies, obligations issued or unconditionally guaranteed by the United States government or agency thereof and having a maturity from date of purchase of one year or less, with certain other limitations, or the Commonwealth Treasurer's Investment Pool.

The pool meets the criteria of an external investment pool. The pool is administered by the Massachusetts Municipal Depository Trust, which was established by the Treasurer of the Commonwealth who serves as trustee. The fair value of the position in the pool is the same as the value of the pool shares. The pooled investment fund is exempt from categorization under the exemption for pools and mutual funds as outlined in GASB No. 3.

The carrying amount of the Town's deposits with financial institutions was \$22,364,868 and the bank balance was \$12,379,201. The bank balance is categorized as follows:

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Amount insured by the Federal Depository Insurance and Depositors Insurance Fund or collateralized with securities held by the Town in its name	\$ 869,431
Uninsured and Uncollateralized	11,509,770
	<u>\$ 12,379,201</u>

The carrying amount of the System's deposits with financial institutions was \$651,025 and the bank balance was \$734,691. The bank balance is categorized as follows:

Amount insured by the FDIC or collateralized with securities held by the System's in its name	<u>\$ 734,691</u>
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Investments made by the Town, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the Town or its agent in the Town's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Town's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Town's name.

	Category			Market
	1	2	3	Amount
U. S. Treasury Obligations	\$ -	\$ -	\$ 311	\$ 311
U. S. Government Agencies	500,000	-	36,681,243	37,181,243
	<u>\$ 500,000</u>	<u>\$ -</u>	<u>\$ 36,681,554</u>	

Mutual fund investments	500,253
Investments in Massachusetts Municipal Depository Trust	371,291
Other	7,191,337
	<u>\$ 45,244,435</u>

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Investments made by the System, including repurchase agreements, are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by the three categories described below:

Category 1 - Insured or registered, or securities held by the System or its agent in the System's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the System's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the System's name.

	Category			Market
	1	2	3	Value
Equity securities	\$ 500,000	\$ -	\$ 6,617,684	\$ 7,117,684
Money market				523,875
Mutual fund instruments				28,579,478
Real estate funds				2,373,463
				<u>\$ 38,594,500</u>

The depreciation fund, the stranded investment fund, and investment in other companies fund are shown as restricted assets and are not in the custody of Town.

B. Receivables

At June 30, 2003, receivables for the individual major governmental funds and non-major governmental funds and fiduciary funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	Gross	Allowance	Net
	Amount	for	Amount
		Uncollectibles	
Major and nonmajor governmental funds:			
Property taxes	\$ 293,391	\$ (28,308)	\$ 265,083
Deferred property taxes	31,578	-	31,578
Taxes in litigation	2,384	-	2,384
Tax liens	175,128	(7,768)	167,360
Excise taxes	502,430	(177,656)	324,774
Departmental	3,498	(1,498)	2,000
User charges	281,676	(5,000)	276,676
Special assessments	368,074	-	368,074
Due from other governments	42,455,856	-	42,455,856
Major and nonmajor governmental funds:			
Fiduciary funds	2,504	-	2,504
	<u>\$ 44,116,519</u>	<u>\$ (220,230)</u>	<u>\$ 43,896,289</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
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At June 30, 2003, receivables for the business-type activities consist of the following:

	Gross Amount	Allowance for Uncollectibles	Net Amount
Sewer	\$ 176,564	\$ (5,000)	\$ 171,564
Electric Light	1,890,815	(81,045)	1,809,770
Cablevision	563,345	(35,064)	528,281
	<u>\$ 2,630,724</u>	<u>\$ (121,109)</u>	<u>\$ 2,509,615</u>

The composition of amounts due from other governments as of June 30, 2003 for governmental funds is as follows:

Governmental Funds:

General Fund:

Commonwealth of Massachusetts:

Department of Education:

School Building Assistance - Capital Portion \$ 41,451,301

Nonmajor Governmental Funds:

U. S. Department of Agriculture

School Lunch \$ 14,155

U. S. Department of Education

School Grants 26,085

Commonwealth of Massachusetts:

Department of Education:

School Lunch 2,073

Massachusetts Highway Department:

Chapter 90 funded projects	962,242	1,004,555
	<u>\$ 42,455,856</u>	

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period.

The balance of the general fund deferred revenues account is equal to all of June 30, 2003 receivable balances, except real estate and personal property taxes that are accrued for subsequent 60 day collections.

At the end of the current fiscal year, the deferred revenue for property taxes is \$107,073.

The various components of the other deferred revenue reported in the governmental funds were as follows:

TOWN OF SHREWSBURY, MASSACHUSETTS
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General Fund:

Deferred property taxes	\$	31,578	
Taxes in litigation		2,384	
Tax liens		167,360	
Excise taxes		324,774	
Departmental		1,440	
User charges		276,676	
Special assessments		253,072	
Due from other governments		41,451,301	\$ 42,508,585

Nonmajor Governmental Funds:

Departmental	\$	560	
Special assessments		115,002	
Due from other governments		647,658	763,220
			<u>\$ 43,271,805</u>

C. Capital Assets

Governmental Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 8,546,154	\$ 6,000,000	\$ -	\$ 14,546,154
Construction in progress	48,314,444	12,253,366	-	60,567,810
Total capital assets not being depreciated	56,860,598	18,253,366	-	75,113,964
Capital assets being depreciated:				
Buildings and Renovations	31,565,013	107,600	-	31,672,613
Machinery, equipment and other	3,377,926	284,178	-	3,662,104
Infrastructure	12,913,200	-	-	12,913,200
Total capital assets being depreciated	47,856,139	391,778	-	48,247,917
Less accumulated depreciation for:				
Buildings and Renovations	11,385,982	1,087,355	-	12,473,337
Machinery, equipment and other	1,998,802	356,948	-	2,355,750
Infrastructure	2,810,268	384,516	-	3,194,784
Total accumulated depreciation	16,195,052	1,828,819	-	18,023,871
Total capital assets being depreciated, net	31,661,087	(1,437,041)	-	30,224,046
Total governmental activities capital assets, net	\$ 88,521,685	\$ 16,816,325	\$ -	\$ 105,338,010

TOWN OF SHREWSBURY, MASSACHUSETTS
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Business-Type Activities

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 114,359	\$ -	\$ -	\$ 114,359
Construction in Progress	263,385	(263,385)	-	-
Total capital assets not being depreciated	377,744	(263,385)	-	114,359
Capital assets being depreciated:				
Buildings and renovations	3,766,265	210,536	-	3,976,801
Machinery, equipment and other	7,209,998	275,993	-	7,485,991
Infrastructure	56,897,483	5,679,420	(37,700)	62,539,203
Total capital assets being depreciated	67,873,746	6,165,949	(37,700)	74,001,995
Less accumulated depreciation for:				
Buildings and renovations	1,492,226	118,294	-	1,610,520
Machinery, equipment and other	2,733,060	299,570	-	3,032,630
Infrastructure	24,968,381	2,092,645	(37,700)	27,023,326
Total accumulated depreciation	29,193,667	2,510,509	(37,700)	31,666,476
Total capital assets being depreciated, net	38,680,079	3,655,440	-	42,335,519
Total business-type activities capital assets, net	\$ 39,057,823	\$ 3,392,055	\$ -	\$ 42,449,878

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:

General government	\$ 43,136
Public safety	187,575
Public works	555,076
Education	794,105
Health and human services	74,167
Culture and recreation	174,760
Total depreciation expense - governmental activities	<u>\$ 1,828,819</u>

Business-Type Activities:

Sewer	\$ 278,572
Electric light department	1,072,505
Community cablevision	1,159,432
Total depreciation expense - business-type funds	<u>\$ 2,510,509</u>

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D. Interfund Receivables, Payables and Transfers

Interfund transfers for the fiscal year ended June 30, 2003, are summarized as follows:

Transfers Out:	Transfers In:			Total
	General fund	Nonmajor governmental fund	Business-type funds	
General fund	\$ 250,000	\$ 26,958	\$ 999,088	\$ 1,276,046
Nonmajor governmental funds	1,338,101	-	-	1,338,101
Business-type funds	457,060	-	-	457,060
Total transfers out	<u>\$ 2,045,161</u>	<u>\$ 26,958</u>	<u>\$ 999,088</u>	<u>\$ 3,071,207</u>

E. Short-Term Financing

Under the general laws of the Commonwealth and with the appropriate local authorization the Town is authorized to borrow funds on a temporary basis to (1) fund current operations prior to the collection of revenues, by issuing revenue anticipation notes, (2) fund grants prior to reimbursements, by issuing grant anticipation notes, and (3) fund capital projects costs incurred prior to selling permanent debt by issuing bond anticipation notes.

Details related to the short-term debt activity of the governmental type fund are as follows:

Purpose	Interest Rate	Final Maturity Date	Balance June 30, 2002	Renewed/ Issued	Retired/ Redeemed	Outstanding June 30, 2003
Bond Anticipation Notes:						
School planning	3.00%	9/27/2002	\$ 599,000	\$ -	\$ 599,000	\$ -
School planning	2.10%	11/27/2002	-	599,000	599,000	-
School renovations	2.50%	11/26/2003	-	15,670,000	-	15,670,000
Land acquisition	2.50%	11/26/2003	-	6,000,000	-	6,000,000
School addition	2.50%	11/26/2003	-	1,830,000	-	1,830,000
Massachusetts Water Pollution Abatement Trust:						
Septic Title V		10/1/2003	111,131	-	-	111,131
Septic Title V		12/31/2004	-	8,000	-	8,000
			<u>\$ 710,131</u>	<u>\$ 24,107,000</u>	<u>\$ 1,198,000</u>	<u>\$ 23,619,131</u>

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities.

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F. Long Term Debt

General obligation bonds currently outstanding of the governmental type fund are as follows:

	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2003
Inside Debt:					
Elementary School Construction	4.77%	2/15/1996	2/1/2016	1,000,000	\$ 641,500
Land Acquisition - Conservation	4.74%	6/1/1999	6/1/2019	3,000,000	2,380,000
Land Acquisition - High School	4.75%	6/1/1999	6/1/2019	2,400,000	1,920,000
Senior Center	4.36%	6/1/1999	6/1/2009	1,000,000	600,000
High School Construction	4.46%	8/15/2001	8/15/2021	58,900,000	58,420,000
School Planning	2.97%	8/15/2001	8/15/2004	320,000	210,000
Land Acquisition - Conservation	4.35%	8/15/2001	8/15/2019	2,000,000	1,885,000
Total Inside Debt					<u>66,056,500</u>
Outside Debt:					
Elementary School Construction	4.77%	2/15/1996	2/1/2016	9,000,000	5,773,500
Massachusetts Water Pollution Abatement Trust:					
Septic - Title V	N/A	10/25/2000	8/1/2018	86,947	<u>77,285</u>
Total Outside Debt					<u>5,850,785</u>
Total governmental type debt					<u><u>\$ 71,907,285</u></u>

General obligation bonds currently outstanding of the business-type fund are as follows:

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	Interest Rate	Date Issued	Final Maturity Date	Original Amount Issued	Outstanding June 30, 2003
Inside Debt:					
Sewer Department:					
Massachusetts Water Pollution Abatement Trust:					
Assebet River Consortium	N/A	7/15/2001	2/1/2021	490,127	\$ 465,833
Electric Light Department:					
Building Renovations	4.57%	2/1/1996	2/1/2010	1,000,000	510,000
Total Inside Debt					<u>975,833</u>

Outside Debt:

Electric Light Department:					
Installation of Transformers	4.23%	8/15/2001	8/15/2017	1,760,000	1,650,000
Community Cablevision Department:					
Community Cablevision (CATV) Plant	4.56%	6/1/1999	6/1/2019	5,300,000	3,880,000
Total Outside Debt					<u>5,530,000</u>
Total Business-type debt					<u>\$ 6,505,833</u>

Future Debt Service

The annual principal and interest payments to retire all general obligation long-term debt outstanding as of June 30, 2003, are as follows:

Governmental	Principal	Interest	Total
2004	\$ 4,179,831	\$ 3,373,435	\$ 7,553,266
2005	4,179,831	3,204,481	7,384,312
2006	4,074,831	3,015,113	7,089,944
2007	4,064,831	2,827,921	6,892,752
2008	4,064,831	2,661,654	6,726,485
2009-2013	19,899,154	10,418,449	30,317,603
2014-2018	18,749,147	5,515,736	24,264,883
2019-2022	12,694,829	1,248,996	13,943,825
	<u>\$ 71,907,285</u>	<u>\$ 32,265,785</u>	<u>\$ 104,173,070</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
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The annual principal and interest payments to retire all business-type long-term debt outstanding as of June 30, 2003, are as follows:

Business-Type	Principal	Interest	Total
2004	\$ 555,561	\$ 297,440	\$ 853,001
2005	555,823	274,511	830,334
2006	556,163	250,072	806,235
2007	561,564	225,516	787,080
2008	561,972	201,613	763,585
2009-2013	2,574,750	630,194	3,204,944
2014-2018	1,045,000	132,838	1,177,838
2019-2021	95,000	9,750	104,750
	<u>\$ 6,505,833</u>	<u>\$ 2,021,934</u>	<u>\$ 8,527,767</u>

A summary of the changes in governmental activities and business-type long term debt during the year is as follows:

	Balance			Balance	Amounts Due
	June 30, 2002	Additions	Reductions	June 30, 2003	within One
					Year
Governmental activities:					
Bond Payable:					
General obligation bonds	\$ 73,415,000	\$ -	\$ 1,585,000	\$ 71,830,000	\$ 4,175,000
Massachusetts Water Pollution Abatement Trust	82,116		4,831	77,285	4,831
Compensated absences	1,023,847	-	-	1,023,847	228,442
Governmental activity Long-term liabilities	<u>\$ 74,520,963</u>	<u>\$ -</u>	<u>\$ 1,589,831</u>	<u>\$ 72,931,132</u>	<u>\$ 4,408,273</u>
Business type activities:					
Bond Payable:					
General obligation bonds	\$ 6,755,000		\$ 715,000	\$ 6,040,000	\$ 535,000
Massachusetts Water Pollution Abatement Trust	486,188		20,355	465,833	20,561
Compensated absences	246,677	-	-	246,677	7,605
Business-type activity long term Long-term liabilities	<u>\$ 7,487,865</u>	<u>\$ -</u>	<u>\$ 735,355</u>	<u>\$ 6,752,510</u>	<u>\$ 563,166</u>

Massachusetts Water Pollution Abatement Trust

The Town has borrowed moneys from the Water Pollution Abatement Project Bond Resolution (Pool Loan Program). Under this program the borrower shall receive, as a credit against the loan repayment then due on this bond, the loan subsidy amounts (earnings on the equity of the trust). The Town currently has two loans as follows:

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-a gross obligation of \$128,234 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$41,287 resulting in a net loan repayment of \$86,947.

-a gross obligation of \$768,508 representing the gross principal and interest repayments amounts; of this loan subsidy amounts consists of \$320,919 resulting in a net loan repayment of \$447,589.

The following is a summary of the activity of the Water Pollution Abatement Project Bond Resolution:

No. 97-1055

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 86,947	\$ 41,287	\$ 128,234	\$ 41,287	\$ 86,947
Repayments:					
Fiscal Year 2001	-	1,032	1,032	1,032	-
Fiscal Year 2002	4,831	3,774	8,605	3,774	4,831
Fiscal Year 2003	4,831	3,580	8,411	3,580	4,831
	<u>\$ 77,285</u>	<u>\$ 32,901</u>	<u>\$ 110,186</u>	<u>\$ 32,901</u>	<u>\$ 77,285</u>

No. 00-24

	Principal	Interest	Total	Less: Loan Subsidy Amount	Net Loan Repayments
Initial Loan Obligation	\$ 490,127	\$ 278,381	\$ 768,508	\$ 320,919	\$ 447,589
Repayments:					
Fiscal Year 2002	3,939	12,011	15,950	8,711	7,239
Fiscal Year 2003	20,355	23,195	43,550	21,245	22,305
	<u>\$ 465,833</u>	<u>\$ 243,175</u>	<u>\$ 709,008</u>	<u>\$ 290,963</u>	<u>\$ 418,045</u>

Legal Debt Limit

Under Section 10 of Chapter 44 of the Massachusetts General Laws a Town may authorize indebtedness up to a limit of five percent of its equalized valuation of the Town. Debt issued in accordance with this section of the law is designated as being "inside the debt limit." The Town's inside debt at June 30, 2003 totaled \$67,032,333.

In addition, the Town is authorized to incur debt outside of that limit for specific purposes. Such debt, when issued, is designated as being "outside the debt limit."

The following is a computation of the legal debt limit as of June 30, 2003:

TOWN OF SHREWSBURY, MASSACHUSETTS
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June 30, 2003

Equalized Valuation-Real Estate and Personal Property (2002)		<u>\$ 3,257,882,400</u>
Debt Limit: 5 % of Equalized value		<u>\$ 162,894,120</u>
Total Debt Outstanding		
General Debt:	\$ 71,907,285	
Less: Debt Outside Debt Limit	<u>5,850,785</u>	\$ 66,056,500
Enterprise Debt:	\$ 6,505,833	
Less: Debt Outside Debt Limit	<u>5,530,000</u>	975,833
Total Inside Debt		<u>\$ 67,032,333</u>
Inside Debt Excess Borrowing Capacity at June 30, 2003		<u>\$ 95,861,787</u>

Loans Authorized and Unissued - Memorandum Only

Under the general laws of the Commonwealth of Massachusetts a Town must authorize debt at a Town meeting. This authorized debt does not have to be actually issued at that time and remains authorized until the debt is actually issued or Town meeting votes to rescind the authorized debt. Loan authorizations that have not been issued as permanent long term debt of June 30, 2003 and are not reflected in the Town's financial statements are as follows:

Date of Town Meeting	Purpose	Amount
02/16/00	Remodeling, Reconstructing and Repairs to the Existing Senior High School	6,010,000
09/09/02	Land Acquisition of 49 acres	100,000
		<u>\$ 6,110,000</u>

G. Special Trust Funds

Stabilization Fund

Under Section 5B of Chapter 40 of the Massachusetts General Laws, the Town may for the purpose of creating a stabilization fund appropriate in any year an amount not exceeding ten percent of the amount raised in the preceding year by taxation of real estate and tangible personal property or such larger amount as may be approved by the Emergency Finance Board. The aggregate amount in the fund at any time shall not exceed ten percent of the equalized valuation of the Town and any interest shall be added to and become a part of the fund. The stabilization fund may be appropriated in a Town at a Town meeting for any lawful purpose.

At June 30, 2003, \$879,117 has been set aside in a stabilization fund, which is classified as a major fund in the governmental funds financial statements.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

4. OTHER INFORMATION

A. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The Town has obtained a variety of commercial liability insurance policies which passes the risk of loss listed above to independent third parties.

Settlement claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

B. Town Meeting -- Fiscal Year 2004

Designated for Subsequent Years' Expenditures - The Town of Shrewsbury operates under the "Representative Meeting" concept where each registered voter elects a representative to vote in adopting of Town budgets and appropriations. The financial statements for June 30, 2003 do not reflect the fiscal year 2004 Town Meeting action, with the exception of Unreserved Fund Balance-Designated for Subsequent Years' Expenditures and Reserved Retained Earnings as disclosed below. The Annual Town Meeting on May 19, 2003 authorized a fiscal year 2004 operating and capital budget as follows:

From the Tax Levy	\$ 64,786,541
From Sewer Fund	1,900,000
From Electric Light Fund	399,021
From Community Cablevision Fund	863,421
From Improvement of Water System	600,000
From Continuing Appropriations	325,000
From Other Available Funds:	
<i>(Designated for Subsequent Years' Expenditures)</i>	
General fund:	
Undesignated Fund Balance:	
(Free Cash)	3,362,416
Major fund:	
Stabilization Fund	185,000
Nonmajor governmental funds:	
Cemetery Sale of Lots	\$ 25,000
Septic Loan Repayment Fund	4,831
Workmen Compensation Fund	175,000
Water Claims Settlement	1,450,000
	<u>1,654,831</u>
	<u>\$ 74,076,230</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

C. Contingent Liabilities

Litigation

Various cases are pending against the Town. Litigation is subject to many uncertainties, and the outcome of individual matters is not always predictable. Although the amount of the liability, if any, at June 30, 2003, cannot be ascertained, management believes any resulting liability should not materially affect the financial position at June 30, 2003.

Federal Financial Assistance

The Town receives significant financial assistance from numerous federal and state agencies in the form of grants and entitlements. Expenditures of funds under these programs require compliance with the grant agreements and are subject to audit procedures prescribed under the Single Audit Act Amendments of 1996. Any disallowed expenditures resulting from such audits become a liability of the Town.

The outcome of lawsuits and any findings with respect to disallowed expenditures is not expected to materially affect the financial condition of the Town.

Electric Light Department - Massachusetts Municipal Wholesale Electric Company

The Town of Shrewsbury acting through its Light Department is a Participant in certain Projects of the Massachusetts Municipal Wholesale Electric Company (MMWEC).

MMWEC is a public corporation and a political subdivision of the Commonwealth of Massachusetts created as a means to develop a bulk power supply for its Members and other utilities. MMWEC is authorized to construct, own or purchase ownership interests in and to issue revenue bonds to finance electric facilities (Projects). MMWEC has acquired ownership interests in electric facilities operated by other utilities and also owns and operates its own electric facilities. MMWEC sells all of the capability (Project Capability) of each of its Projects to its Members and other Utilities (Project Participants) under Power Sales Agreements (PSAs).

Among other things, the PSAs require each Project Participant to pay its pro rata share of MMWEC's costs related to the Project, which includes debt service on the revenue bonds issued by MMWEC to finance the Project, plus 10% of MMWEC's debt service to be paid into a Reserve and Contingency Fund. In addition, should any Project Participant fail to make any payment when due, other Project Participants may be required to increase (step up) their payments and correspondingly their Participant's share of Project Capability to an additional amount not exceed 25% of their original Participants' share of the Project Capability. Project Participants have covenanted to fix, revise, and collect rates at least sufficient to meet their obligations under the PSAs.

MMWEC has eight Projects. MMWEC originally financed all eight Projects through the issuance of multiple series of revenue bonds under a General Bond Resolution adopted by MMWEC in 1976 (GBR). Security of these bonds included a pledge of the revenues derived by MMWEC from all its Project PSAs, without regard to Project or series of bonds. In 2001, through a refinancing of all of its outstanding bonds, MMWEC amended and restated its

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

GBR to eliminate this "joint-pledge" of revenues. In refinancing its debt, MMWEC issued a separate issue of bonds for each of the eight Projects, which are payable solely from, and secured solely by, the revenues derived from the Project to which such issue relates plus available funds pledged under the Amended and Restated GBR with respect to the bonds of such issue. The MMWEC revenues derived from each Project are used solely to provide for the payment of the bonds of any bond issue relating to such Project and to pay MMWEC's cost of owning and operating such Project and are not used to provide for the payment of the bonds of any bond issue relating to any other Project.

MMWEC's operates the Stony Brook Intermediate Project and Stony Brook Peaking Project fossil-fueled power plants. MMWEC has a 22.7 MW interest in the W. F. Wyman Unit No. 4 plant, owned and operated by subsidiaries of Florida Power & Light and a 4.8% ownership interest in the Millstone Unit 3 nuclear unit operated by Dominion Nuclear Connecticut, Inc. (DNCI) a subsidiary of Dominion Resources, Inc. DNCI has stated its intention to file an application with the Nuclear Regulatory Commission (NRC) for an extension of the Millstone Unit 3 operating license, which currently will expire in 2025. DNCI has not yet filed its application with the NRC.

MMWEC's has a 11.6% ownership interest in the Seabrook Station nuclear generating unit which represents a substantial portion of its plant investment and financing program. On November 1, 2002, an indirect subsidiary of FPL Group, Inc., FPL Energy Seabrook, LLC, purchased an approximate 88% share in the Seabrook nuclear plant from seven other owners. MMWEC is now one of three minority non-operating owners of Seabrook Station.

Pursuant to the PSAs the MMWEC Seabrook and Millstone Project Participants are liable for their proportionate share of the costs associated with decommissioning the plants, which is being funded through monthly Project billings. The Project Participants are also liable for the proportionate share of the uninsured costs of a nuclear incident that might be imposed under the Price-Anderson Act. By its terms, the Price Anderson Act expired in August 2002. Congress is currently considering extending the Act.

Shrewsbury Electric Light Department has entered into PSAs and PPAs with MMWEC. Under both the PSAs and PPAs, the Department is required to make certain payments to MMWEC payable solely from Municipal Light Department revenues. Under the PSAs, each participant is unconditionally obligated to make payments due to MMWEC whether or not the Project(s) is completed or operating and notwithstanding the suspension or interruption of the output of the Project(s).

MMWEC is involved in various legal actions. In the opinion of management, the outcome of such litigation or claims will not have a material adverse effect on the financial position of the company.

As of December 31, 2002, total capital expenditures amounted to \$1,499,872,000, of which \$71,362,000 represents the amount associated with the Department's Project Capability. MMWEC's debt outstanding for the Projects and PPAs including Power Supply System Revenue Bonds and commercial paper notes totals \$1,005,535,000, of which \$49,562,000 is associated with the Department's share of Project Capability and PPAs. As of December 31, 2002, MMWEC's total future debt service requirement on outstanding bonds issued for

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

the Projects and commercial paper notes for PPAs is \$1,333,835,000, of which \$66,090,000 is anticipated to be billed to the Department in the future.

The aggregate amount of Shrewsbury Electric Light Plant's required payments under the PSAs and PPAs, exclusive of the Reserve and Contingency Fund billings, to MMWEC at December 31, 2002, and estimated for future years is shown below.

For years ended December 31, 2003	\$ 6,513,000
For years ended December 31, 2004	5,397,000
For years ended December 31, 2005	5,395,000
For years ended December 31, 2006	5,380,000
For years ended December 31, 2007	5,252,000
Later fiscal years	38,153,000
	<u>\$ 66,090,000</u>

In addition, the Department is required to pay its share of the Operation and Maintenance (O&M) costs of the Projects in which it participates. The Department's total O&M costs including debt service under the PSA's were \$7,671,000 and \$9,747,000 for the years ended December 31, 2002 and 2001, respectively.

Electric Light Department – Other Commitments

In addition to MMWEC, the Department is committed under long-term purchased power contracts, expiring on various dates through the year 2004, to pay demand charges whether or not energy is received. The demand charges associated with the contracts are reflected as purchased power on the income statement. The Department is also required to pay the actual amount of energy received under such contracts.

The following is a schedule by years of the aggregate amount of such required purchases as of December 31, 2002:

	<u>ANNUAL COST</u>
Year ending December 31, 2003	\$ 3,892,215
Year ending December 31, 2004	<u>2,100,000</u>
Total	<u><u>\$ 5,992,215</u></u>

Purchased power expense under these agreements was \$5,147,541 in 2002 and \$5,766,815 in 2001.

During 2002 and 2001, PG&E National Energy Group included in their billing to the Department amounts in excess of what the Department contends is their contractual

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

obligation totaling \$429,013. The liability has been reflected in the current year, pending resolution of the contract dispute.

D. Pension Plan

Plan Description

The Town, as a member of the Shrewsbury Contributory Retirement System participates in a cost-sharing multiple-employer defined benefit pension plan administered by the Shrewsbury Retirement Board. Each participating employers' share of the total annual contribution is determined on the basis of active payroll. Substantially, all employees are members of the System, except for public school teachers and administrators who are members of the Commonwealth of Massachusetts Teachers' Retirement System to which the Town does not contribute. Pension benefits and administrative expenses are paid by the Teachers' Retirement Board and are the legal responsibility of the Commonwealth. The amount of these on-behalf payments totaled approximately \$3,580,386 for the fiscal year ending June 30, 2003, and, accordingly, are reported in the General Fund as intergovernmental revenues and employee benefit expenditures.

Employee membership data as of December 31, 2002 is as follows

Active members	546
Inactive members	161
Retired members, beneficiaries and survivors	<u>239</u>
	<u>946</u>

The System provides retirement, disability, and death benefits to plan members and beneficiaries. Chapter 32 of the Massachusetts General Laws assigns authority to establish and amend benefit provisions of the plan. Cost of living adjustments granted between 1981 and 1987 and any increases in other benefits imposed by the Commonwealth's state law during those years are borne by the Commonwealth and are deposited into the pension fund. Cost-of-living adjustments granted after 1997 must be approved by the Shrewsbury County Retirement Board and are borne by the System. The System issues a publicly available unaudited financial report in accordance with guidelines established by the Commonwealth's PERAC. That report may be obtained by contacting the System located at 100 Maple Avenue, Shrewsbury, Massachusetts.

Funding Policy

Plan members are required to contribute to the System at rates ranging from 5% to 11% of annual covered compensation. The Town is required to pay into the System its share of the system-wide actuarial determined contribution that is apportioned among the employers based on active current payroll. Administrative expenses are funded through investment earnings. Chapter 32B of the Massachusetts general laws governs the contributions of plan members and the Town.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

The Town's contribution to the System for the fiscal years ended June 30, 2003, 2002 and 2001 is shown below, which equaled its required contribution for each fiscal year.

Year Ended June 30	Town's Contribution
2003	\$ 1,471,780
2002	1,240,656
2001	1,628,742

The following schedules are presented in accordance with the GASB No. 25.

(Dollar amounts in thousands)

Actuarial Valuation Date	Actuarial Vale of Assets (A)	Actuarial Accrued Liability (AAL) Entry Aid (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a Percentage of Covered Payroll ((B-A)/C)
1/1/2002	\$ 46,779	\$ 59,313	\$ 12,534	78.9%	\$ 16,774	74.7%
1/1/2000	48,072	49,487	1,415	97.1%	14,065	10.1%
1/1/1999	39,202	46,719	7,517	83.9%	13,196	57.0%

The last actuarial valuation was prepared by the Pricewaterhousecoopers as of January 1, 2002. The actuarial cost method of the plan has been determined in accordance with the individual entry age normal actuarial cost method. Significant actuarial assumptions used in the valuation include (a) a rate of return on the investment of present and future assets of 8.5% compounded annually and (b) projected salary, including longevity, increases of 5.5% per year per member.

The unfunded actuarial liability for the system is \$12,533,566.

Reporting Policies

The funds of the Shrewsbury Contributory Retirement System are accounted for under the accrual basis. Under the accrual basis of accounting, all revenues and expenditures are accrued and investments are amortized to value. The books are maintained on a calendar year basis from January 1st to December 31st in accordance with the standards and procedures outlined by the Commissioner of the Public Employees Retirement Administration.

Investments are reported in accordance with PERAC requirements.

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

5. IMPLEMENTATION OF NEW GASB PRONOUNCEMENTS

During fiscal year 2003, the following GASB pronouncements were implemented:

- Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments
- Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Omnibus
- Statement No. 38, Certain Financial Statement Note Disclosures

The pronouncements identified above are all related to the new financial reporting requirements as defined in Statement No. 34. Fiscal year 2003 is the required implementation date. The most significant changes required by the new financial reporting standards are as follows:

- Management's discussion and analysis.
- Basic financial statements, which include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting.
 - Fund financial statements, consisting of a series of statements that focus on major governmental and enterprise funds.
 - Schedules to reconcile the fund financial statements to the government-wide financial statements.
 - Notes to the basic financial statements.

The following beginning fund balances have been restated to reflect the change in focus of reporting from generic fund types to major funds:

Description	Special Revenue	Capital Projects	Trusts
Fund Balances at June 30, 2002, as previously reported	\$ 20,743,839	\$ 13,046,896	\$ 3,203,145
To reclassify funds to non-major governmental funds in the new reporting model	(20,743,839)	(13,046,896)	(3,203,145)
Fund Balances at June 30, 2002, as restated	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

Description	General Fund	Stabilization Fund	Senior High School Construction Fund	Middle School Construction Fund	Nonmajor Governmental Funds	Private Purpose Trust Funds
Fund Balances at June 30, 2002 as previously reported	\$ 12,956,685	\$ -	\$ -	\$ -	\$ -	\$ -
Special revenue, capital projects, and trust fund balances as previously reported	-	-	-	-	36,993,880	-
To establish major funds in the new reporting model	-	565,046	11,874,182	170,648	(12,609,876)	-
Recognize unrealized gain at June 30, 2002	-	-	-	-	(37,779)	-
To establish private purpose trust funds from funds previously reported in the trust funds	-	-	-	-	(283,254)	283,254
Previous sewer funds reclassified from special revenue to business-type activities	-	-	-	-	(6,876,379)	-
To reclassify deposits and escrows accounts to agency accounts previously reported in the special revenue funds	-	-	-	-	(7,225,048)	-
Outstanding governmental bond anticipation notes at June 30, 2002	-	-	-	(599,000)	(79,314)	-
Establish tax refund payable at June 30, 2002	(87,001)	-	-	-	-	-
Fund Balances at June 30, 2002 as restated	<u>\$ 12,869,684</u>	<u>\$ 565,046</u>	<u>\$ 11,874,182</u>	<u>\$ (428,352)</u>	<u>\$ 9,882,230</u>	<u>\$ 283,254</u>

TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

Governmental Activities

Total fund balances of general, special revenue, capital projects, expendable and nonexpendable trusts	\$	49,950,565
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Add:

Capital assets (net of accumulated depreciation) at June 30, 2002		88,521,686
To record revenue under the full accrual basis of accounting		43,245,575

Less:

Outstanding governmental bonds payable at June 30, 2002		(73,497,116)
Outstanding governmental bond anticipation notes payable at June 30, 2002		(678,314)
Previously reported trust funds reclassified to private purpose trust funds		(283,254)
Governmental compensated absence balances at June 30, 2002		(1,023,847)
Accrued interest payable on outstanding governmental bonds payable at June 30, 2002		(2,358,590)
Tax refund payable at June 30, 2002		(87,001)
Unrealized gains at June 30, 2002		(37,779)
To reclassify deposits and escrow accounts to agency funds previously reported in the special revenue funds		(7,225,048)
Previously sewer fund reclassified from capital projects to business-type activities		(6,876,379)

Net assets at beginning of year - governmental activities

	\$	89,650,498
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TOWN OF SHREWSBURY, MASSACHUSETTS
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2003

Business-Type Activities

	Sewer Fund	Electric Light Fund	Community Cablevision Fund
Total fund balances of enterprise funds	\$ -	\$ 6,518,316	\$ 1,473,437
<i>Add:</i>			
Capital assets (net of accumulated depreciation) at at June 30, 2002	9,049,046	18,774,576	11,234,201
To record revenue under the full accrual basis of accounting	1,645,530	1,746,116	211,280
Previously sewer operating reclassified from special revenue to business-type activities	6,876,379	-	-
Inventory at June 30, 2002	-	202,979	275,799
Prepayments at June 30, 2002	-	1,563,561	-
Restricted assets at June 30, 2002	-	8,327,846	-
<i>Less:</i>			
Outstanding enterprise bonds payable at June 30, 2002			
bonds payable at June 30, 2002	(486,188)	(2,340,000)	(4,415,000)
Accrued interest payable on outstanding enterprise bonds payable at June 30, 2002	(9,665)	(73,317)	(19,462)
Business-type compensated absence balances at at June 30, 2002	(10,219)	(188,974)	(47,484)
<i>Net assets at beginning of year - business-type activities</i>	<u>\$ 17,064,883</u>	<u>\$ 34,531,103</u>	<u>\$ 8,712,771</u>

Private Purpose Trust Funds

Total fund balances of private purpose trust funds	\$ -
<i>Add:</i>	
Previously scholarship and charity trust funds reclassified from trust funds	283,254
<i>Net assets at beginning of year - Fiduciary funds</i>	<u>\$ 283,254</u>

PALMER & DODGE LLP

111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

(Date of Delivery)

Carolyn J. Marcotte, Treasurer
Town of Shrewsbury
Shrewsbury, Massachusetts

(Shrewsbury Municipal Purpose Loan of 2004 Bonds)

We have examined the law, a certified copy of proceedings and other papers relating to the issue of \$8,650,000 Municipal Purpose Loan of 2004 Bonds dated November 15, 2004, by the Town of Shrewsbury, Massachusetts.

On the basis of this examination we are of opinion, as of the date hereof and under existing law, as follows:

(1) The bonds are valid general obligations of the Town of Shrewsbury and except to the extent they are paid from other sources the principal of and interest on the bonds are payable from taxes which may be levied upon all taxable property in the Town, subject to the limit imposed by Chapter 59, Section 21C of the General Laws except for that portion of the principal and interest payments which the Town has voted to exempt from that limit.

(2) The interest on the bonds is exempt from Massachusetts personal income taxes, and the bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the bonds.

(3) The interest on the bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Town comply with all requirements of the Code that must be satisfied subsequent to the issuance of the bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Town has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the bonds. We express no opinion regarding other federal tax consequences arising with respect to the bonds.

The rights of the holders of the bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

**PROPOSED FORM OF
CONTINUING DISCLOSURE CERTIFICATE**

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the Town of Shrewsbury, Massachusetts (the "Town") in connection with the issuance of its \$8,650,000 Municipal Purpose Loan of 2004 Bonds dated November 15, 2004 (the "Bonds"). The Town covenants and agrees as follows:

SECTION 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the Town for the benefit of the Owners of the Bonds and in order to assist the Participating Underwriters in complying with the Rule.

SECTION 2. Definitions. For purposes of this Disclosure Certificate the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Town pursuant to, and as described in, Sections 3 and 4 of this Disclosure Certificate.

"Listed Events" shall mean any of the events listed in Section 5(a) of this Disclosure Certificate.

"National Repository" shall mean any nationally recognized municipal securities information repository for purposes of the Rule. The current National Repositories are listed on Exhibit A attached hereto.

"Owners of the Bonds" shall mean the registered owners, including beneficial owners, of the Bonds.

"Participating Underwriter" shall mean any of the original underwriters of the Bonds required to comply with the Rule in connection with offering of the Bonds.

"Repository" shall mean each National Repository and each State Depository.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"State Depository" shall mean any public or private depository or entity designated by The Commonwealth of Massachusetts as a state information depository for the purpose of the Rule. (As of the date of this Disclosure Certificate there is no State Depository).

SECTION 3. Provision of Annual Reports.

(a) The Town shall, not later than 270 days after the end of each fiscal year, provide to each Repository an Annual Report which is consistent with the requirements of Section 4 of this Disclosure Certificate. The Annual Report may be submitted as a single document or as separate documents comprising a package, and may cross-reference other information as

provided in Section 4 of this Disclosure Certificate; provided that the audited financial statements of the Town may be submitted when available separately from the balance of the Annual Report.

(b) If the Town is unable to provide to the Repositories an Annual Report by the date required in subsection (a), the Town shall send a notice to the Municipal Securities Rulemaking Board and the State Depository, if any, in substantially the form attached as Exhibit B.

SECTION 4. Content of Annual Reports. The Town's Annual Report shall contain or incorporate by reference the following:

(a) quantitative information for the preceding fiscal year of the type presented in the Town's Official Statement dated November __, 2004 relating to the Bonds regarding (i) the revenues and expenditures of the Town relating to its operating budget, (ii) capital expenditures, (iii) fund balances, (iv) property tax information, (v) outstanding indebtedness and overlapping debt of the Town, and (vi) pension obligations of the Town, and

(b) the most recently available audited financial statements of the Town, prepared in accordance with generally accepted accounting principles.

If audited financial statements for the preceding fiscal year are not available when the Annual Report is submitted, the Annual Report will include unaudited financial statements for the preceding fiscal year and audited financial statements for such fiscal year shall be submitted when available.

Any or all of the items listed above may be incorporated by reference from other documents, including official statements of debt issues of the Town or related public entities, which have been submitted to each of the Repositories or the Securities and Exchange Commission. If the document incorporated by reference is a final official statement, it must be available from the Municipal Securities Rulemaking Board. The Town shall clearly identify each such other document so incorporated by reference.

SECTION 5. Reporting of Material Events.

(a) The Town shall give notice, in accordance with subsection 5(b) below, of the occurrence of any of the following events with respect to the Bonds, if material:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Unscheduled draws on debt service reserves reflecting financial difficulties.
4. Unscheduled draws on credit enhancements reflecting financial difficulties.
5. Substitution of credit or liquidity providers, or their failure to perform.
6. Adverse tax opinions or events affecting the tax-exempt status of the Bonds.

7. Modifications to rights of the Owners of the Bonds.
8. Bond calls.
9. Defeasances.
10. Release, substitution or sale of property securing repayment of the Bonds.
11. Rating changes.

It should be noted, however, that as of this date events of the types listed in paragraphs 2, 3, [4, 5,] and 10 above are not applicable to the Bonds.

(b) Whenever the Town obtains knowledge of the occurrence of a Listed Event, the Town shall as soon as possible determine if such an event would be material under applicable federal securities laws and if so, the Town shall promptly file a notice of such occurrence with the Municipal Securities Rulemaking Board and the State Depository, if any.

SECTION 6. Termination of Reporting Obligation. The Town's obligations under this Disclosure Certificate shall terminate upon the legal defeasance in accordance with the terms of the Bonds, prior redemption or payment in full of all of the Bonds.

SECTION 7. Amendment; Waiver. Notwithstanding any other provision of this Disclosure Certificate, the Town may amend this Disclosure Certificate and any provision of this Disclosure Certificate may be waived if such amendment or waiver is permitted by the Rule, as evidenced by an opinion of counsel expert in federal securities law (which may include bond counsel to the Town), to the effect that such amendment or waiver would not cause the Disclosure Certificate to violate the Rule. The first Annual Report filed after enactment of any amendment to or waiver of this Disclosure Certificate shall explain, in narrative form, the reasons for the amendment or waiver and the impact of the change in the type of information being provided in the Annual Report.

If the amendment provides for a change in the accounting principles to be followed in preparing financial statements, the Annual Report for the year in which the change is made shall present a comparison between the financial statements or information prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting principles. The comparison shall include a qualitative discussion of the differences in the accounting principles and the impact of the change in the accounting principles on the presentation of the financial information in order to provide information to investors to enable them to evaluate the ability of the Town to meet its obligations. To the extent reasonably feasible, the comparison shall also be quantitative. A notice of the change in the accounting principles shall be sent to each Repository.

SECTION 8. Default. In the event of a failure of the Town to comply with any provision of this Disclosure Certificate any Owner of the Bonds may seek a court order for specific performance by the Town of its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not constitute a default with respect to the Bonds, and the

sole remedy under this Disclosure Certificate in the event of any failure of the Town to comply with this Disclosure Certificate shall be an action for specific performance of the Town's obligations hereunder and not for money damages in any amount.

SECTION 9. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the Owners of the Bonds from time to time, and shall create no rights in any other person or entity.

Date: _____, 2004

TOWN OF SHREWSBURY,
MASSACHUSETTS

By _____
Treasurer

Selectmen

[EXHIBIT A: List of National Repositories]
[EXHIBIT B: Form of Notice of Failure to File Annual Report]

Payment Pursuant to Financial Guaranty Insurance Policy

Ambac Assurance has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Obligations effective as of the date of issuance of the Obligations. Under the terms of the Financial Guaranty Insurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Obligations which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Financial Guaranty Insurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Trustee/Paying Agent. The insurance will extend for the term of the Obligations and, once issued, cannot be canceled by Ambac Assurance.

The Financial Guaranty Insurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Obligations become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Obligations, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Obligations on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Obligations, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Paying Agent/Bond Registrar has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Financial Guaranty Insurance Policy, payment of principal requires surrender of Obligations to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Obligations to be registered in the name of Ambac Assurance to the extent of the payment under the Financial Guaranty Insurance Policy. Payment of interest pursuant to the Financial Guaranty Insurance Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder’s right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the Obligation, appurtenant coupon, if any, or right to payment of principal or interest on such Obligation and will be fully subrogated to the surrendering Holder’s rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation (“Ambac Assurance”) is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately **\$8,142,000,000** (unaudited) and statutory capital of approximately **\$4,824,000,000** (unaudited) as of **June 30, 2004**. Statutory capital consists of Ambac Assurance’s policyholders’ surplus and statutory contingency reserve. Standard & Poor’s Credit Markets Services, a Division of The McGraw-Hill Companies, Moody’s Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor of the Obligations.

Ambac Assurance makes no representation regarding the Obligations or the advisability of investing in the Obligations and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading Appendix D - “Ambac Bond Insurance and Specimen”.

Available Information

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the “Company”), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the “SEC”). These reports, proxy statements and other information can be read and copied at the SEC’s public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the “NYSE”), 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance’s financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance’s administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York, 10004 and (212) 668-0340.

Incorporation of Certain Documents by Reference

The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company’s Current Report on Form 10-K dated December 31, 2003 and filed on March 15, 2004;
2. The Company’s Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company’s Current Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. The Company’s Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004; and
6. The Company’s Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004.
7. The Company’s Current Report on Form 8-K dated October 20, 2004 and filed on August 20, 2004.
8. The Company’s Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2004 and filed on November 9, 2004.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in “**Available Information**”.



Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee